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EXPORT OPPORTUNITIES: AN UNTAPPED RESOURCE FOR SMALL BUSINESS

HEARING

BEFORE THE

SUBCOMMITTEE ON EXPORT OPPORTUNITIES AND SPECIAL SMALL BUSINESS PROBLEMS

OF THE

COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

SECOND SESSION

DALLAS, TX, JULY 10, 1984

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EXPORT OPPORTUNITIES: AN UNTAPPED RESOURCE FOR SMALL BUSINESS

TUESDAY, JULY 10, 1984

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON EXPORT OPPORTUNITIES AND
SPECIAL SMALL BUSINESS PROBLEMS,
COMMITTEE ON SMALL BUSINESS,
Dallas, TX.

The subcommittee met, pursuant to notice, at 10 a.m., in the board room, Administration Building, DFW Airport South, Dallas, TX, Hon. Ike Skelton (acting chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN SKELTON

Mr. SKELTON. The hearing will come to order.

I wish to welcome our first panel, and to welcome all these who are attending our hearings on export opportunities and related matters.

We are here at the request and invitation of Congressman Vandergriff, who is on my right. We will be also holding an associated hearing in Abilene, TX, tomorrow, at the invitation and request of Congressman Stenholm, who is on my left.

There are also those, I understand, who have told Congressman Vandergriff that a number wish to testify, and there just wasn't time, the panels had already been filled. Those who wish to submit written testimony and have it made part of the record, feel free to contact members of our staff or Congressman Vandergriff or Congressman Stenholm or me.

We will hold the record open for 7 days in the event that you wish to do that.

I now call on Congressman Vandergriff, whose district we are now situated, for his comments.

TESTIMONY OF HON. TOM J. VANDERGRIFF, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. VANDERGRIFF. Thank you, Mr. Chairman. I, too, would like to welcome all those here today. We appreciate their presence so very much.

First of all, I would like to particularly welcome you, sir, and thank you very much for agreeing to have this subcommittee meeting here in the heart of our north Texas region. It's very gratifying to me personally and to our area that you do so.

I am excited about the fact that Mr. Skelton is now the chair of our subcommittee, which has a particular emphasis on exporting. I think that he will give us leadership that will stand the country in good stead. For those who do not know Congressman Skelton, he is from the great Show-me State of Missouri, he is in his fourth term, and a member of the Armed Services Committee, in addition to his duties on the Small Business Committee.

I believe he also serves on the Select Committee on the Aging. But, in any event, he is one of the most popular and influential Members of Congress, and I am certainly proud to be his co-worker in this particular subcommittee effort.

And, in terms of popularity and influence within the Congress, I repeat those compliments as far as Congressman Stenholm is concerned. He is such a valued voice from Texas in the Congress. Mr. Stenholm is in his third term already representing our State. He's a key member of the Agriculture Committee, in addition to his service on the Small Business, and he is viewed as one of the most important spokesmen for agriculture and agribusiness in the Congress.

I know that we will have a very interesting hearing tomorrow in Abilene, when Charlie will be our host. So, it's good to have these two colleagues of mine here today. I am most honored that they would see fit to grant our request to focus attention upon exporting here in what, in my judgment, could be one of the greatest centers of same in the entire country.

Mr. Chairman, I do have a somewhat lengthy opening statement I would like to make as part of the record. I will quote from it in the interest of time.

Mr. SKELTON. Without objection, the entire record will be entered.

Mr. VANDERGRIFF. Thank you very much. I especially want to yield to our witnesses for not only their statements, but any questions we might want to direct to them.

But, I would like to state that we are very sensitive about the fact that U.S. imports are growing at a rate about 50 percent faster, compared with our GNP growth, as do exports.

Hopefully, today we can explore these matters. Certainly, it's far more complex than time permits us to detail in this opening statement. But in my judgment, the bottomline is the United States must take swift action.

Protectionist measures are likely to have only limited effects on the overall trade imbalance. They should be used as seldom as possible, and then only in response to real crises. They can't be viewed as a long-term solution.

In my judgment, exporting is that long-term solution. I was pleased to see that the conference report on the recently passed tax bill established a new export incentive, known as the Foreign Sales Corporation, to replace the existing Domestic International Sales Corporation.

This action should satisfy the European communities' contention that this was in violation of the General Agreement on Tariffs and Trade, and this new GATT legal incentive should help spur new overseas investment and exporting.

I'm hopeful, however, that complimentary legislation introduced by our colleague on the House Small Business Committee, Henry Nowak, will receive consideration next year. This proposal would address concerns of small business with the new FSC's, in that it would permit small companies to satisfy the overseas activity obligation if they incorporated in a designated foreign trade zone, such as we have just visited here on the DFW air property itself.

I think the Federal Government can assist exporters by revising the Export Administration Act, which is presently stalled in conference. Much of the debate and the differences between the House and the Senate versions have centered on the need to strike a balance between creating an environment which encourages exporting, and maintaining controls over the exportation of somewhat sensitive items to countries that may not be totally friendly to the United States.

We mustn't undermine our national security, but by the same token, we must not render it impossible for American companies to compete with foreign counterparts, even if the exported goods are high technology in nature.

We need to ensure as best we can that exported technology is not diverted to unfriendly nations. The licensing procedures should not be so arduous and time consuming, however, that the American company loses a bid to a foreign company where the country doesn't require such strict compliance procedures.

I'm hopeful, therefore, that the conferees will adopt House passed provisions of the Export Administration Act which would streamline and expedite the licensing procedures. By the same token, I would hope to see the Senate provisions relative to contract sanctity adopted. We have seen instances in which companies have suffered substantial economic hardships when our country ordered the abrogation of a contract, despite the availability of the commodity from another country.

And, then, too, we need to send a clear message to our executive branch officials to engage our trading partners in discussions relative to the Cocom list. Many items which are currently on this restricted list are readily available. It may be that certain items could be deleted from the Cocom list, thereby expanding our export opportunities.

To sum up, we are here today to learn of the success stories, when and where they exist locally. In terms of exporting, we are anxious to learn of the problems that you who are active in this field have found so that we can, if possible, help to correct those problems. And, of course, we're anxious to hear from our financial community and from our Government officials who are present as to the services they can provide to make it more attractive for American small business to become exporters in the truest and fullest sense.

We think it's a sleeping giant for our economy, and we're here to help. We're anxious to learn from those of you who will testify before us today.

Thank you very much, Mr. Chairman.

[Congressman Vandergriff's prepared statement follows:]

PREPARED STATEMENT OF HON. TOM J. VANDERGRIFF, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

I would first like to welcome you to this Small Business Committee hearing. We are delighted so many of you could join us, and we are certainly privileged to have with us today two of my distinguished colleagues.

EXPRESSIONS OF APPRECIATION AND RESPECT TO HON. IKE SKELTON AND HON. CHARLES STENHOLM

I would also like to take this opportunity to express our thanks to the North Texas Commission for their assistance in arranging for the facilities and providing refreshments, the D/FW Airport Board for the use of the facilities and the bus for the tour of the Foreign Trade Zone, Darrell J. Sekin & Company for conducting the tour, and all participants in this hearing.

I venture to say that each of us in this room places a premium on the reduction of the federal deficit, on the restoration of strong economic growth, and on returning to full employment. Small business offers perhaps the greatest potential contribution in these three areas. Small Business is our single greatest source of job creation, and this vital role in the recovery must be recognized and supported.

The export market is one of the most important frontiers for Small Business. Sadly, however, it is a venture that is often overlooked for a variety of reasons by small or medium-sized enterprises, especially because of the risks involved. Exporting, however, is practical and profitable, and in fact, almost any U.S. firm with a good product or service to sell may have real export potential. Many firms that are comfortable in starting a business within the U.S. borders, however, are uncertain where to start when it comes to trading with other countries. The problems involved in beginning an export venture may seem insurmountable, but sound planning can greatly facilitate the process. It is our sincere hope that this hearing will provide the forum in which small businesses in the Metroplex area, and throughout the country, can learn about the problems encountered with federal regulations, the services available from both the public and private sector, and perhaps most importantly, about potential economic benefits such as creation of jobs and increased business revenues.

We in Congress have been stressing the need to improve our trade balance and expand our exports—and many of us view Small Business as our best cooperative partner. These problems cannot be resolved solely by the entrance of Small Business into the export market, however. The single most important key to the reduction of the trade deficit—which is expected to reach an unprecedented $100 billion this year—is decisive action to reduce the federal budget deficit, and as a result, interest rates. This definitely remains the most critical step to the resolution of both our international and domestic economic problems.

The massive domestic borrowing needed to service the national debt is, contrary to the contention of some, in large measure responsible for the current high interest rates. Barring major changes in international financial markets or a loosening of the money supply by the Federal Reserve, the recent decision by Congress to raise the debt ceiling once again may mean that interest rates will continue to rise (although I should like to note that I have voted time and again against raising the debt ceiling in an attempt to force more decisive action to reduce the deficit).

High interest rates act as a magnet for foreign investment and result, among other things, in a strong dollar. When, as is currently the case, the dollar becomes overvalued compared to the currencies of our nation's trading partners, clearly exporters suffer. In fact, the impact of the rise in the value of the dollar is comparable to placing as much as a 20 to 25 percent tax on all U.S. exports, and supporting by equal percentages all imported goods! The fact of the matter is that we are simply importing a great deal more than we are exporting. U.S. imports are tending to grow about 50 percent faster, compared with our GNP growth, as do exports.

Obviously, the issue is far more complex than time permits us to detail. The bottom line is that the United States must take swift action. Protectionist measures are likely to have only limited effects on the overall trade imbalance. They should be used as seldom as possible, and then, only in response to real crises. They cannot be viewed as a long-term solution.

I was pleased to see that the conference report on the recently-passed tax bill established a new export incentive known as the Foreign Sales Corporation (FSC) to replace the existing Domestic International Sales Corporation (DISC). This action should satisfy the European community's contention that the DISC was in violation of the General Agreement on Tariffs and Trade (GATT). The new GATT-legal incentive should help spur new overseas investment and exporting. I am hopeful, howev-

er, that complementary legislation introduced by our colleague on the House Small Business Committee, Henry Nowak, will receive consideration next year. This proposal would address concerns of Small Business with the new FSC's in that it would permit small companies to satisfy the overseas activities obligation if they incorporated in a designated Foreign Trade Zone—and I should like to point out that the D/FW Airport *is* a Foreign Trade Zone.

The Federal government can assist exporters by revising the Export Administration Act, which is presently stalled in conference. Much of the debate and differences between the House and Senate versions has centered on the need to strike a balance between creating a climate which encourages exporting and maintaining controls over the exportation of somewhat sensitive items to countries that *may* not be totally friendly to the United States. We must not undermine our national security, but by the same token, we must not render it impossible for American companies to compete with foreign counterparts, even if the exported goods are high technology in nature. We need to ensure, as best we can, that exported technology is not diverted to unfriendly nations. The licensing procedure should not be so arduous and time consuming, however, that an American company loses a bid to a foreign company whose country does not require such strict compliance procedures.

I am hopeful, therefore, that the conferees will adopt the House-passed provisions of the Export Administration Act which would streamline and expedite the licensing procedures. By the same token, I would hope to see the Senate provisions relative to contract sanctity adopted. We have seen instances in which companies have suffered substantial economic hardships when our government ordered the abrogation of a contract, despite the availability of the commodity from another country. Then, too, we need to send a clear message to our Executive Branch officials to engage our trading partners in discussions relative to the COCOM list. Many items which are currently on this restricted list have become state-of-the art, and are readily available. It may be that certain items could be deleted from the COCOM list, thereby expanding our export opportunities.

We must not lose sight of the fact that there is a fine line between the two goals of encouraging exporting and ensuring our national defense. We hope that the conferees will be mindful of the need to strike such a balance, and consider the recommendations I have just set forth.

The ultimate solution, as we have mentioned but cannot stress enought, is substantially reducing the budget deficit and creating an economic climate conducive to the expansion of exports. We in Congress must face up to these responsibilities. You may have other actions you would recommend for us to take in order to make exporting more attractive to those of you already engaged in such endeavors, or to encourage those of you not presently doing so to explore the export market for what we believe to be its enormous potential. We look forward to the testimony.

Mr. SKELTON. Thank you. Congressman Stenholm.

TESTIMONY OF HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. STENHOLM. Thank you, Mr. Chairman. I do thank you for coming to Texas and allowing us to have this hearing. It's always good to be in my neighbor's district. Tom and I share at least one county together Cooke County, and it's always good to be here with a neighbor.

I would say ditto to every thing that Tom has said and certainly as we look ahead to the 99th Congress, we look ahead to slaying the budget deficit dragon. If we don't do something about it, it's going to become an insurmountable problem.

Exports have got to play a very large role, and certainly serving on the House Agriculture Committee and being a farmer myself and recognizing the importance of agricultural exports, I have a firm belief that there is a golden opportunity for small business in the export field, and if we can find a way to further that interest, that it will do more to providing jobs and more to providing the best solution to the budget deficits that are affecting this country than any one thing.

So, I'm very excited about these hearings today and tomorrow, with the testimony that we will hear. I hope and believe there will be some excellent ideas that we can take back to the Small Business Committee and focus on during the remainder of this year. Next year, using this information, we can develop an agenda for the remainder of the eighties and the nineties as to how we can, in fact, do more in the export trade area. That's why we're here. I'm happy to be here, and look forward now to the hearings.

I would also like to have an article inserted in the record at this point.

[The article referred to above follows:]

OVERSEAS AG CONSULTING GROWS DESPITE WEAK WORLD ECONOMY

The leadership role of U.S. agricultural consultants in developing food production and distribution systems throughout the world has come into sharp focus in a survey recently conducted by the American Society of Agricultural Consultants (ASAC). Society members reported consulting assignments in forty-five countries around the world, covering 115 different development projects. U.S. exports could increase by as much as $420 million in goods and services necessary to support the projects underway with U.S. private agricultural consulting assistance.

The ability of U.S. agricultural consultants to successfully translate management and technology into efficient food supply systems was an important factor in the strong demand for their services, despite the continuing weakness of the world economy and intense competition from other nations' service industries. Six times as many respondents to the ASAC survey reported increases in overseas business in the past twelve months as reported decreases.

Although substantial gains were registered in foreign consulting assignments by the U.S. Industry, ASAC members reported several obstacles to further increases in overseas projects. A number of potential U.S. consulting assignments were lost to government-backed competition from members of the European Community and eastern bloc nations. EC and eastern bloc nations provide a variety of government assistance in the form of subsidies or low cost financing to service industries competing for foreign, business. A number of U.S. government agencies and the Congress have recently begun to investigate the effect on the U.S. economy of service business lost to U.S. Firms by subsidized foreign competition.

The potential value of exports resulting from U.S. consulting assignments abroad rose by $1.6 million per consultant between 1982 and 1983 according to the ASAC survey. Each U.S. consultant was involved in development projects having an average annual potential of $10.2 million dollars in U.S. exports. This includes the actual business services provided, and the value of the construction, maintenance and supply equipment, as well as the breeding stock feed grains and other agricultural products needed to successfully operate modern food and fiber systems, which could be provided by other U.S. firms. The multiplier effect of agricultural consulting is often many times the value of the basic services provided, as foreign buyers generally turn to the country which conducted the feasibility studies for assistance with the construction, and maintenance of the project.

The 1983 ASAC survey also indicates the growing private sector role of foreign and U.S. agribusiness in world food development as government budgets are strained and nationally-financed projects are delayed or cancelled. In the past year, 60 percent of the consulting assignments reported were sponsored by private firms—39 percent by foreign businesses, and 21 percent by American firms. Reported U.S. government sponsorship of foreign assignments using private U.S. agricultural consultants rose to 12 percent of the total while foreign government sponsorship was 28 percent according to the survey.

Africa continues to be the leading market for U.S. agricultural consultants according to the survey, followed by Asia and the Far East, Europe, other North American countries, the Middle East, Latin America, the Caribbean and the South Pacific.

In addition to subsidized foreign competition, agricultural consultants often cited weak world economic conditions as a major factor in keeping business from growing faster. Many noted that currency devaluations around the world had affected their business, while others indicated that decreasing foreign government development budgets and lack of financing proved to be obstacles. However, many consultants told ASAC that the demand for agricuitural development services remains strong.

Declining oil prices and continuing need for foreign nations to learn how to turn U.S. agricultural technology into bottom line performance were often cited as signs of future increases in U.S. agricultural consulting overseas.

Mr. STENHOLM [continuing].

Mr. Chairman.

Mr. SKELTON. Thank you. Without further comment or ado then, I wish to introduce the first panel, which is the panel for private enterprise representing Donald Jablonowski, Charles Martinez, Charles Kee, George Gibson, and John Adel.

Gentlemen, welcome. I will ask that we proceed from my left to the right. Give us your statement or summary thereof, and then you will be subjected to questions by us and please understand this is on the record, not just for us today. This is for taking back to the Small Business Committee and the full committee, so we hope to take some good thoughts and ideas back with us.

Mr. Jablonowski?

TESTIMONY OF DONALD R. JABLONOWSKI, PRESIDENT, TEXAS FIRST INTERCONTINENTAL TRADING CO.

Mr. JABLONOWSKI. My name is Donald R. Jablonowski. I'm president of Texas First Trading, and we are located at 5720 LBJ Freeway in Dallas, our home base.

My associates and I, Congressman Skelton, Congressman Vandergriff, and Congressman Stenholm, appreciate the opportunity for me to testify before this committee.

We employ 10 people in our Dallas office and have working directors in Austin/San Antonio, Houston, and Washington, DC here in the United States.

We are an export trading company certified in December 1983 by the U.S. Departments of Justice and Commerce under the Export Trading Act of 1982.

We began, really, in April 1983, as semisponsored by the Republic of Texas Corp., who, at that time, was looking at going into the export trading business. We served as consultants to Republic, ultimately and principally because of some of their problems and loans abroad, they decided not to enter the export trading business, but, meanwhile, we attracted enough investment capital to enter the business.

We are strong believers in international trade as a means for not only making money and balancing the trade position in the United States, but as a tool to world peace, and that as long as we're honorably trading together, we will not war. We chose our Dallas staff very carefully and everyone of our officers has resided and worked in at least one country outside the United States, and most of them have worked in several.

Conceptually, we said that we wanted to be a global trading company, we put that on our letterhead, and we really do mean it. We felt that we should be product driven. By definition, as an export trading company, 51 percent of our gross revenue must relate to U.S. exports of goods and services and, therefore, we intend to sell U.S. products abroad.

By definition also, 49 percent of our revenue can relate to imports or multilateral trade, and we find that we do a good bit of that with our global network.

We are project driven in that we, particularly in the Far East, find that a great deal of the business is done in that manner, particularly in Communist China or mainland China, which is coming from the 19th Century to the 21st Century in a big way. They are very anxious to have project plants. So, we are in that business.

We are demand driven, likewise from a product standpoint where, when we are out in the marketplace, we find that there is demand for certain products. We come back to the United States, and in our marketplace, source these products.

We currently market or source products in foreign markets for more than 100 producers of goods and services, mostly small or medium sized and mostly located in the southwestern part of the United States.

We feel very strongly that we should be multilingual in our dealings abroad. We have language capabilities in Spanish, Portugese, French, German, Greek, Italian, and Dutch in our office. We use this as we communicate outside the United States.

We do business both as a principal and an agent, generally speaking, as a principal. We try to avoid taking undue risks.

As mentioned, we try to be a global trading company, and, therefore, established early on that we could not really trade from Dallas, that it was necessary to establish ourselves, a presence, in the principal trading zones of the entire world in order to do business. We, therefore, entered into partnership abroad with a Dutch company in Rotterdam, as Texas First Trading, Europe; and with a group in London who are commodity oriented to handle particularly counter-trade commodities, which we might receive in payment for U.S. goods which we sell abroad.

On the other side of the globe, we entered into a joint venture operation with Sun Hung Kai, which is the Fong family trading operation in Hong Kong. We have a 50/50 joint venture with them for marketing U.S. products to Hong Kong, PRC and Taiwan.

Likewise, we have a small operation in Singapore, TFT Singapore, and we have a joint venture with American Leisure Products in Australia, which handles the distribution, particularly of consumer goods, in that part of the world.

We would urge that people entering export trade plan to be flexible in pricing. They cannot afford necessarily to be gaining higher prices to export than they can from domestic buyers. In fact, they have to be prepared maybe to cut prices and realize profits in incremental production.

We urge them to be flexible in packaging and have found that they are perfectly prepared to do so. Generally speaking, we find that the time frame to get into the foreign markets is much longer than we think it should be. Even those of us who've had long years of experience have found that minimum in Europe, you're talking about 6 months from the time that you take on a market to get a trial order.

In the Far East, it can be longer. Middle East is probably the quickest market we have, and we presently are selling a good bit of product into the Middle East. We would hope that in the future we will sell more in Europe and the Far East.

It costs a lot of money to do business. Likewise, we expect to gain economies of scale, but it does mean that we have some problems

in our business and one of them is capital. Since we are not bank sponsored, we have had to look to our shareholders for capital. We have expended so far approximately $850,000 in establishing our export base here in the United States and our distribution base abroad. We are just about out of capital.

We have gone after it in several places, and we expect to get it, but it's not easy, and basically we are looking to the Export/Import Bank at some point to come in and help us out. We expect to get some additional private capital. We're hopeful to get a bank to eventually come in with us, but, so far, no such bank has entered the export trading business.

We also naturally expect to get part of our capital from the business itself.

I mentioned counter trade. I would just add that this is an effective marketing tool. I would say that we expect that to be an ever increasing amount of business because the underdeveloped countries do not have foreign countries to pay for their goods; they must pay for them in goods, and those who are planning to do international trading, also plan on doing counter trading.

Finally, I respectfully urge Congress to use its powers of persuasion with several institutions who could facilitiate and aid in the success of the export trading companies.

First, the Export Trading Company Act instructs the Export/Import Bank to finance ETC's favorably. But, even so, the current process is laborious and full of red tape. Instead, the Eximbank should be instructed to solicit business from ETC's by calling on them as commercial bankers might call on major corporate customers, and make the credit decisions in the field, and not in Washington.

Do direct loans, not guarantees to private banks which entail a double credit decision. Early loans should be at lower than market rates to offset the ETC's investment risk.

Second, the ETC Act, by definition, permits bank holding companies to own and finance ETC's. Few have acted. Through Congress' influence on the Comptroller of the Currency, the Federal Reserve Board, the Treasury Department and their influence on the private banks, participation in ETC's should be encouraged to the extent to require commercial banks to have ETC related assets in their portfolios, including capital stock loans, working capital loans, etc.

Third, ETC's should be used by the Federal Government to market excess stockpiled strategic materials and to source any needed such materials.

Fourth, far too many products require export permits. The President can and should eliminate these, except for those products which truly affect the national security.

Finally, tariff barriers and quotas should be eliminated. Free trade will work through our system, and we will compete in those areas where we are ahead. Let the sick companies go if they cannot compete.

Thank you for allowing me to testify before this committee.

[Mr. Jablonowski's prepared statement follows:]

Prepared Statement of Donald R. Jablonowski, President, Texas First Intercontinental Trading Co.

My associates at Texas First Intercontinental Trading Company and I appreciate the opportunity for me to testify before this committee. I am appearing before you as Chief Executive Officer of Texas First Trading ("T.F.T."), an export trading company certified in December, 1983, by the U. S. Departments of Justice and Commerce under the Export Trading Company Act of 1982. We employ 10 people in our Dallas office, and have working Directors in Austin/San Antonio, Houston and Washington, D. C. here in the United States.

We are a type of export trading company ("ETC") that is not presently bank sponsored. Bank holding companies are permitted to sponsor ETC's up to effectively 15% of their capital and surplus. I believe there are no Texas banks who have sponsored ETC's - most of the bank-sponsored ETC's are either on the East or West Coast, with the exception of First Chicago's entry with Sears and Southern Ohio Bank's United Midwestern, Cincinnati. Speaking of Sears, I do not know if you are acquainted with what has recently happened in Sears World Trading Co., but during their first 15 months of operation, it is reported that they managed to lose about 16 million dollars; and Sears Roebuck has gotten a bit tired of reporting in their quarterly earnings the losses of their trading company, and therefore they have had a major shake-up as to management and as to direction of the business. Fortunately for us, they have provided T.F.T. with some new products which relate to some projects they had going; people have come to see us because we happen to be here and have suggested that we join in where Sears has left off.

We began, really, in April, 1983, as semi-sponsored by Republic of Texas Corp. Republic, at that time, was looking at going into the export trading business, and took myself and Bill Robertson (our current Executive Vice President and Chief Financial Officer) on as consultants to the bank to do a study determining the feasibility of Republic entering. Ultimately, and principally due to their problems in loans abroad, they decided not to enter the trading business, and we were very fortunate in attracting enough investor capital to enter into the business. We feel very strongly that the government of the United States has provided the vehicle - one of the important trading vehicles of our lifetime - to move toward bringing the United States back into a competitive mercantile position. So we set out to find people, once we had a reasonable amount of capital. We chose our Dallas staff carefully; everyone of our Officers has resided and worked in at least one country outside the U. S., and most have worked in several. We are capitalized at one million dollars, and this is

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really investor-type capital. Our Board is working - they not only own us, they also work for us, which is very positive - but they are not necessarily salaried.

Conceptually, we said that we wanted to be a global trading company - we put that on our letterheads, and we really mean it. We felt that we should be product driven - we want to export U. S. middle market (small to medium sized producers) produced products. By definition, as an export trading company, 51% of our gross revenue must relate to U. S. exports of goods and services abroad. By definition also, 49% can relate to imports and multi-lateral trade, in which we engage to a great extent. We are project driven in that we are perfectly willing to look at projects, and we find in certain parts of the world that that is where a lot of the business is done today, particularly out in the Far East. Some of the developing underdeveloped countries who have the means to pay for it are very anxious to come from the 19th century into the 21st century. The U. S. does have technology - whatever you read about the technology gap is really untrue. We have a lot of technology and products to sell - the main thing we need to do is get out and sell them. If we sell abroad as we should, we will be able to add many new workers to the productive system, and take them off unemployment or out of poverty. We are also demand driven, and that is the reverse side of product driven, I suppose. But since we are out in the market place, we are brought into contact with those who have a need for specific goods and services. We look at anything; we established ourselves as a general trading company, and we intend to operate that way. We have looked at and discarded many things because we have found either there was just no market abroad, or we are ill-suited to handle. If we are ill-suited for the product or project, we attempt to find others who are suited, and are perfectly willing to introduce these people there. We currently market or source products in foreign markets for more than 100 U. S. producers of goods and services - mostly small to medium sized, and mostly located in the southwestern part of the U. S.

We feel very strongly about T.F.T. participating as a U. S. multi-lingual company. We have within our group of people Spanish, Portuguese, French, German, Greek Italian and Dutch language capability. If a telex comes in from Germany, we telex out in German. We translate our product literature, not in total, but we do translate our literature into the principal respective languages of the countries in which we are dealing.

We do business as both a principal and an agent - generally speaking, as a principal. We buy here and we sell abroad. We do not take undue risks; as a general rule we do not take positions. First of all, we are not capitalized for position taking; secondly, we do not believe it is prudent, given the state of our business; and finally, there is no reason to do so. You can buy and you can sell, provided you have both the buyers and sellers on each end of the program.

Now, where are we abroad? Again, we decided we wanted to be global, so we set out to look at how one becomes global traders, or marketers, if you wish

to use that term; merchandisers might be a better term. We determined that, first of all, you have to operate in the trading time zones that you are trying to sell. It is perfectly impossible to trade from Dallas - you cannot do it to the Middle East, to Western Europe, or to the Far East effectively. You really do need someone on the scene in whom you have confidence, and who can represent you in these locations. So, we made some easy choices. I happen to have some former associates in London who were appropriate for the type of thing for which we were looking, and we approached them and they joined us as our London office - T.F.T. London - which operates as a consumer products (durables and foods) marketing office. It acts as a clearing house for countertrade - commodities oriented - which is important today in the world in which we are trading. We next moved on and looked at where we could best be centered for industrialized product development in Western Europe, and we selected Holland. It was not the only location, obviously - Germany is a very important market; the United Kingdom is a very important market. The Dutch, however, are traders, and historically have been, and we joined together with a distributor there - the Van Gelder Group - which is a one hundred year old Dutch firm dealing principally in industrialized products. We formed a 50/50 joint venture which is known as T.F.T. Europe, and they provide us with a sales force constantly traveling throughout Western Europe and the Middle East. They sell our products for us; we provide the products, we provide the marketing support, if you will, from here. Going to the other side of the globe, we asked ourselves where we wanted to be in the Far East. If you take the map and look at it, there are several choices. We came up with Hong Kong first, principally because of its access to the mainland Chinese market. Singapore is a good second choice, if one is looking in that direction and the Asean area. There are some "gives and takes" on taxes and doing business, and worries about 1997; but we were fortunate enough to get tied up with the Sun Hung Kai Group in Hong Kong, which is owned by the Fung family. one of the five principal Chinese Hong Kong families. They are in all sorts of businesses, the smallest of which is their trading operation, Sun Hung Kai Trading. They do have about 200 people devoted to selling products in Hong Kong, Taiwan and the mainland Chinese market. There are supposedly about 1.1 billion people in mainland China alone. That is a lot of market - 5 times the United States. And they have money; they will pay for their goods if they want them. South Korea: we have a distributor in Seoul. We have a three-person office in Singapore, headed by an American gentleman who has been in Singapore for 35 years, plus two Chinese. They know the Singapore and Asean markets very well. American Leisure Products in Australia, with offices in Sydney, Perth, Melbourne, Adelaide and Brisbane, represents us there for consumer goods. That is a 50/50 joint venture with United Midwestern International Corporation, previously mentioned. They happened to have acquired Baldwin Music Company's Australian operation, and have given us a built-in entree into Australia; so we are having a very happy time with them, and they are moving products into that excellent market. That's a super market - the Australian per capita income is not very high, but they spend every bit of it.

As producers, as potential exporters, or as exporters, one must be prepared

to be flexible in pricing (export prices may well be lower than domestic, but incremental profits or incremental production should be positive for the producer), be prepared to modify product, or be prepared to modify packaging - not drastically, but an example is a food product we are selling right now into the United Kingdom. As you probably know, the "Dallas" television series is really "big stuff" all over the world today. The United Kingdom is no exception - they hate J. R., and love Bobby - all those things. And so, we happened to come into contact with a local producer of a sauce - it is called J. R.'s Sauce - and it had a little cowboy hat on it. Wonderful, we thought, for Europe; and sure enough, the United Kingdom loved it. As the Chief Buyer at Harrod's mentioned to Rebecca Crow, who heads up that end for us, "Mrs. Crow, this packaging is atrocious. But, they will buy it, so I will buy it." So, you never know what will happen. Another example is a piquante sauce called Brazos Brand. Well, Brazos means nothing, but J. R.'s still carries through, so we talked the manufacturers of Brazos Brand into buying J. R.'s, and now another of the products with little cowboy hats - "atrocious, but sells" - is moving to the United Kingdom. I use these consumer goods as examples because they sell faster than industrial products. Another one is the bar-be-que smokers called Mr.. Meat Smoker in this part of the country. They are selling - they sell in Germany, the U. K., Holland, Belgium and France. And what do they sell for in Germany? Not for bar-be-que, for which we use them here, or smoked beef; they use them for smoking pork hocks, which they call "eisbein." One must deal in currencies; be prepared to do so. The bankers will buy exchange from the exporter; they will quote exchange. One must be prepared to deal in foreign currencies, provided again, one fixes the exchange rate so there is no future risk. This is a facilitating type of thing that the foreign buyer will appreciate; the fact that the seller is willing to talk to him in his language and his currency sells goods.

For purpose of background of typical periods of activity of the people involved in a general export trading company, I will cite a recent two-week period in the life of Texas First Trading. Our Vice President of Marketing and Sales spent about two weeks in the Middle East, selling all sorts of things. He had to get there before Ramadan, which is during June, in order to get the orders in before Ramadan; so, he had to get there in late May. He made his trip, got some orders for such things as foods and specialty chemicals and building materials, farm machinery and equipment, and so forth. He returned here, crawled on another plane to London and met me in Amsterdam, completely worn out, but we had a meeting in Rotterdam that evening, and I was off. He has since been traveling Europe, adding to our T.F.T. Europe crew that is selling equipment in Europe. This is his role these days. His wife is not particularly enamoured with it, but she is living with it. What is he selling in Europe? He's selling local products. Genelco, a small firm out in northeast Dallas, makes a line of automobile component parts and a line of light sensors which are being sold in Europe. Optek from McKinney makes fiber optics products. I recently sat in Munich, Germany, and heard our distributor say, " We are going to sell one hundred thousand dollars in Optek products in the near term." And the distributor is spending money, advertising in trade journals, sending people out to sell it. So it can be

done. We are making goods here that can be exported.

Dick Breakell, one of our Directors - no salary, he just travels - went to Canada, involved in selling a safety/emergency escape system distributorship. He sold it, came back, went to Washington and joined with our Washington Director, Don Stingel, to get this particular security system tested at the National Fire Training Center. He came back with certificates so that we can sell the product and say, "It's not only approved by the California State Commission; it is also approved for the U. S. Federal Government." That is important abroad, if you say the U. S. Government purchased the product. Anyway, that is what Breakell did for the two weeks cited.

Jim Brady, our Director, has been in the Far East. He started out in South Korea, where he wanted to look at the production facilities for the hardware portion of the emergency escape system which Breakell was selling in Canada. It is mostly manufactured in Korea, shipped to the States, finished in Las Vegas, Nevada - value added about 100% to what is paid to Korea - and sold to such places, in addition to Canada, as the United Kingdom, Western Europe, the Middle East and the Far East. Brady traveled on to Hong Kong, working on some projects. As an example, we had a local firm which was looking for some pink-striped shrimp. We found some in Hong Kong, and while Brady was there, he visited the plant and learned that the firm does indeed export pink-striped shrimp, excellent quality, so we feel comfortable once again in offering these products to our local market. Brady also worked on products distribution, stressing this part of our business with Sun Hung Kai, because our Hong Kong partners are mostly project, or sourcing, oriented. We are also bringing in canned fruits from mainland China which are of excellent quality. From Hong Kong, Brady moved to Singapore to cover, from Singapore, the Indonesian market - going to Jakarta for a day or so - and to check out other markets in the Asean area. Finally, he visited Australia, working on the same emergency escape equipment we previously mentioned, and also some product distribution efforts for consumer and industrial exports.

My time, for the most part of the two weeks, was in the United Kingdom and continental Europe. I took with me a video tape presentation for the emergency escape system to sell the U. K. and European distributorships, and to sell the products to commercial users such as hotels. The British remarked, "you really are Yankee traders!" That is what we have to do; we have to get out in the market place. In addition to the emergency escape equipment, I worked on a cosmetic distributorship. There is a local manufacturer of quality, healthful cosmetics that is desirous of having distribution in the U. K., the Benelux countries, and France; they are already in Germany. We have commitments from U. K. people who are going to spend some money (about 40 or 50 thousand dollars) to put these products into these countries. Mary Kay is already there; we will be a competitor of May Kay, which is a very fine group of products. This is a little bit different from Mary Kay. though; it offers something else - it is an aloe-based product. From the U. K., I went to Switzerland to check on some sourcing of a beverage that there is demand for here, and we have some indications we can get the southern part

of the U. S. for this beverage, and will take it. Then I returned to Holland again, and finally to Dallas. The next day, I was in Houston to talk about some product sourcing down there - sports equipment, tennis related. That is very good right now in Sweden. I suspect this illustration has belabored the point that export trading company people must get to the markets often in order to do business.

So far, I imagine, one could get the idea this business is fun, exciting and successful, but there are problems. Obviously, capital is one of them. Capital is a serious problem. By capital, I am not talking about share capital, because if a banker is looking at our Balance Sheet, he will say, "Well, you have some capital." This is right, we do; but, we do not have any working capital, really. We spend a lot of money with these people traveling around the world, working at markets. It takes a lot a money, and we need more working capital. We are going to get it some way, but are not presently sure how and where. We hope that our friends at the Export-Import Bank will come through with some. We have out some feelers to some of our producers about charging them fees to put them in the market place. We generally have not charged for this service, but we believe, after a period of time, that we have learned that it takes time to get into markets, and it is expensive. In the Dallas Times Herald of July 2, 1984, it was reported that the average cost of a call to a domestic industrial customer prospect now costs more than $225. Imagine what such a call to a European, Middle Eastern or Far Eastern customer costs. Further, we initially thought, "If you have a good product, that is no problem: go over and sell it." That is not really true in many systems of the world, however. The European system is a little shorter time frame that the Far Eastern, and the Middle Eastern is probably the shortest. One tends to sell on the spot in the Middle East, but they have to have a trial order. In Europe, you will find, generally speaking, that it takes two months getting into the purchasing manager. Once he takes a look at the product, he is probably three months into committee before he will come back and say, "Okay, we will take a trial order." In the Far East, one is six months away from trial order from the time the product is shown. You may as well recognize that; it is much longer term abroad. Meanwhile, of course, we all have to eat; and meanwhile, we need money to pay salaries and travel bills and so forth. Obviously, a certain amount of our capital will come in from sales margins, and those are beginning to slowly build up. We are expecting sales in July of around $250,000. We will make on that $250,000 an average of about 20%. Those are the kind of numbers that we work with, and margins, as principals. As agents, we would take a much lesser number because the risks are much lower.

I mentioned countertrade earlier, and again, I just want to mention it again. We must think countertrade, think barter, whatever you want to call it; but think goods for goods. And while one disposes of goods for goods, it does not necessarily mean that exporters need to get into the countertrade business. There should just be an awareness of the people who are there, so that if the exporter gets into a situation where he can sell more goods by offering his customer the countertrade alternative; that he, in fact, does have that

facility available. Countertrade is an effective marketing tool, particularly in underdeveloped countries.

Finally, I would respectfully like to reiterate why we are in this business. First of all, we are in it to make a profit for our stockholders. But, I want to quickly add something else. Twenty-eight years ago, I joined a company that was a world-wide trading company, and which gave away its world-wide trading capability. I vowed that, at one stage in my life, I would find some way to rebuild such a trading capability for the United States. And I promise you that we look at it as a religion, we look at it as being a very effective tool for world peace, to trade with others. We are convinced that as long as we are trading honorably together, we will not war. Likewise, we look at it as an educational process here in the United States, and are prepared to do that. We want to help, where we can, the domestic producers to become foreign producers. And obviously, we want the United States to return to a mercantile nation and balance its trade position.

Further, I would respectfully like to urge Congress to use its powers of persuasion with several institutions who could facilitate and aid in the success of Export Trading Companies, i. e.:

1) The Export Trading Company Act instructs the Export-Import Bank to finance ETC's favorably. Even so, the current process is laborious and slow and full of red tape. Instead, the Ex-Im Bank should be instructed to solicit business from ETC's by calling on them as commercial bankers might call on major corporate customers, and make the credit decision in the field - not in Washington. Do direct loans - not guarantees to private banks of ETC loans, which mean double credit decisions. Early loans should be at lower than market rates to offset the ETC's investment risk.
2) The ETC Act, by definition, permits bank holding companies to own and finance ETC's. Few have acted. Through influence on the Comptroller of the Currency, the Federal Reserve Board, the Treasury Department and their influence on the private banks, participation in ETC's should be encouraged to the extent to require commercial banks to have ETC related assets in their portfolios, including capital stock loans, working capital loans, etc.
3) ETC's should be used by the Federal Government to market excess stockpiled strategic materials, and to source any needed such materials.
4) Far too may products require export permits. The President can and should eliminate these, except for those products which truly affect the national security.
5) Tariff barriers and quotas should be eliminated. Free trade will work through our system, and we will compete in those areas where we are ahead - let the "sick" companies go if they cannot compete.

Thank you again for allowing me to testify before this Committee.

Respectfully submitted,

Donald R. Jablonowski

Donald R. Jablonowski
President
Texas First Intercontinental Trading Co.

Mr. SKELTON. Thank you very much. Mr. Martinez? We will have questions after the entire panel has testified.

TESTIMONY OF CHARLES A. MARTINEZ, PRESIDENT, DALLAS FORWARDING CO., INC.

Mr. MARTINEZ. Thank you, Mr. Chairman.

My name is Charles Martinez, and I'm the president of Dallas Forwarding Co., Inc. Our headquarters is located at 1245 Mission Chapel Road in Grapevine, TX.

I appreciate the opportunity to speak before you this morning. I'd like to tell you a little bit about who an international freight forwarder is and what we do, and how vital we are to the export community.

In a condensed form, an international freight forwarder is a company or an individual who facilitates the exporting of goods overseas by taking full responsibility of all that is necessary with the packaging, the booking of the cargo with the carriers, the documentation aspect of the shipping, and then after all of the shipping has been taken care of, ensuring that the customer, shipper, gets his money from the bank or other source.

So, in essence, we like to think of ourselves as being part of the export department of an exporting company. It takes many, many years of experience to be able to do this and do it in a professional manner. So, we recommend strongly that new exporters getting into the business be directed toward international forwarders because this is certainly a way for them to stay out of trouble, particularly in the beginning.

There are many, many obstacles to overcome in exporting, and only those of us who have been in the business a long time know what these obstacles are and I've heard many, many stories about new exporters getting into the business only to find out the first transaction was so bad that they said never again do I want anything to do with exporting.

So, I think we, as a forwarder, in the forwarding community, play a very vital role in the exporting of goods to other countries.

I don't really have a speech as such prepared for you, but I have a success story to tell you, and I think most everyone likes to hear success stories.

Having been born in Mexico, some 30 years ago, I took a job as a messenger boy, what we call a runner, going to and from the steamship lines, customs and the docks, and so forth. This is where I had my beginning in international freight forwarding business.

I appreciate the United States probably more than anyone in this room because I realize full well this is a country where people like myself can come in and get an opportunity and do something with your life.

Today, I'm the president and owner of my own freight forwarding company. We now have a staff of nine, having just opened 3 years ago. We have been very successful. We had sales in excess of $1.9 million last year, and we have many, many things going for us.

So, I think the American public, in general, should look at this country as a challenge, as a potential, as an opportunity to do

many great things. In my travels around the world, I've been amazed at how many times I've turned on the television set in Germany and in many countries and the government is telling the local people, say, support your country, buy local products, and export, export as much as you can.

The government then backs that up by giving them incentives in the way of tax benefits to export their goods. So, I think we could probably learn from these experiences.

Now, with regards to what can be done to help me as a small businessman in my particular field, I have a suggestion or a recommendation that perhaps someone should take a hard look at being such—so free with giving foreign companies the opportunity to come into this country.

And, setting up shop, competing with us, the small and medium sized forwarders with very little hassle, very little red tape.

I don't mean to sound negative, but the fact is that if we as an American freight forwarder go to Japan and attempt to open up a division of Dallas Forwarding Co., the answer is no, we must have a 51 percent ownership in Japan, and this is true in most countries throughout the world. We have recently hired a man in London, England, for Dallas Forwarding Co. It was not feasible to open up our own division in London. So, we ended up making an agreement with the individual to put him on the payroll.

So, it's very easy for these giants, multitransportation companies, to come into the United States and obtain the necessary permits and licenses to operate in this country, but, yet, it's very, very difficult for us to go to their countries and do the same thing.

So, I think this is an item that perhaps the Government could assist in.

Thank you.

Mr. SKELTON. Thank you very much.

[The following was received from Mr. Martinez after the hearing for insertion at this point.]

DALLAS FORWARDING CO.,INC.
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July 25, 1984

Honorable Tom Vandergriff
Congress of the United States
1529 Longworth House Office Bldg.
Washington, D. C. 20515

Dear Mr. Congressman:

Thank you once again for the opportunity to testify before your committee at the DFW Airport on July 10th, 1984.

The day after this hearing, I received an article in the mail which greatly disturbed me and I would appreciate it if you would kindly consider these comments as part of my testimony.

"The article I refer to was published in the HEREFORD'S AIR FREIGHT BOOK OF NORTH AMERICA, (please see attached copy). According to this article, the CAB plans to strip us (IATA AGENTS) of our antitrust immunity effective January 1, 1985. If this is allowed to happen, I believe it would be the first step in putting us out of business.

I am in full agreement with the author, Mr. Richard Malkin, that passage of these bills (S.764 and H.R.2053) would practically force the air carriers to only "deal" with the very large forwarders. This would mean that in order for us to get good rates for our customers, we would have to get them from the bigger forwarders instead of the airlines direct as we do now and thus it would put us at a big disadvantage with our bigger competitors.

Knowing that, our customers would have no reason to deal with us and would go directly to the big forwarders. We feel that the "small" IATA agent/forwarder plays a very important roll in international transportation because it is us, the small forwarders, that keep the bigger forwarders in check by providing quality service at competitive prices. If ty are allowed to become the wholesalers of the air freight industry, I feel it would put many (if not all) small forwarders out of business."

Any assistance you could give us in this matter would be greatly appreciated.

Sincerely yours,

Dallas Forwarding Co., Inc.

C. A. Martinez

Charles A. Martinez
President

cc:
Congressman Ike Skelton
Congressman Charles W. Stenholm
Congressman Vandergriff's office in Denton, Texas
Mr. Jack Lindsey, International Air Transport Association
Mr. Herman Lustig, The International Airforwarder and Agents Association
Senator John Tower, Washington, D.C.
Senator Lloyd Bentson, Washington, D.C.
Mr. D. Ray Whitson, Chairperson, District Export Council

HEREFORD'S
Air Freight Handbook
NORTH AMERICA

NUMBER 11 JUNE – NOVEMBER 1984

Mischief to be done

By Richard Malkin

As this is being written, a pair of bills – S.764 and H.R. 2053 – is under consideration in the United States Senate and the House of Representatives.

The proposed legislation, the result of considerable lobbying by the travel/tourism industry, is designed to overturn a decision by the Civil Aeronautics Board which would strip all IATA agents of the antitrust immunity they have had since the beginning of the accreditation process.

Although it was the travel/tourism industry which spearheaded the attack on the CAB as inimical to the operations and economic well-being of travel agents (and therefore to the carriers, hotels, resorts, etc.), the future of America's 1,200-plus cargo agents are caught up in the same broad, myopic sweep of the CAB.

Not unmindful of the difficulties that the withdrawal of antitrust immunity can create for them, the cargo agents leaped aboard the protest bandwagon.

Unless the CAB decision is reversed by Congressional action, it is scheduled to become effective immediately after the CAB sunset at the end of this year.

It is a mischievous ruling – doubly mischievous, since a small CAB majority rejected the recommendations contained in an Administrative Law Judge's initial decision following a three-year investigation.

The Judge (with proposed adjustments that would enhance competition) found continuation of antitrust immunity necessary to the public interest and industry efficiency But the slim CAB majority, their logic straitjacketed by what can only be describec as the rationale of ideologues, insisted on wrecking a proven system on grounds that it conflicted with the thrust of the Airline Deregulation Act of 1978.

One does not have to look far to see the sort of damage that the CAB ruling – if it is permitted to stand – will inflict on the air cargo intermediaries.

How ridiculous that a Government which, judged by past performance, is dedicated to the principle of facilitation in all matters concerning the nation's foreign trade, should willingly (or blindly!) snarl the relationships between IATA and its U.S. cargo agents!

The instant effect of the CAB's action would be the scrapping of the automatic applicability of agency accreditation to all IATA-member airlines.

Instead, every one of 1,200-plus cargo agents would be required to enter into an agreement with each individual carrier.

With their eye hard on costs, not a few airlines may find it preferable – as a number of air cargo executives agree can occur – to concentrate their agency relationships on fewer but bigger producers.

This would create another stratum of agent with direct access to only a portion of the carriers.

His alternatives would be to (a) split commission with a fully accredited agent, and/or (b) serve as a subagent for a big consolidator (who may be a charter customer of non-IATA airlines).

And would the shipper be willing to do business with an intermediary forced to operate with this imposed advantage?

There is optimism in the industry that action in Washington will ultimately kill the CAB ruling.

Perhaps there is good justification for this uplift in the industry's hopes, but it must at all costs avoid being lulled into slackening the effort to win passage of the two bills.

A foretaste of victory can have a bitter, consequence. Wisdom dictates continued pressure.

Mr. SKELTON. Mr. Kee.

TESTIMONY OF CHARLES R. KEE, PRESIDENT, SCOTT INSTRUMENTS CORP.

Mr. KEE. Thank you very much.

My name is Charles Kee, and I'm with Scott Instruments in Denton, TX. We're at 1111 Willow Springs Drive in Denton, TX.

We are engaged in the area of speech technology, in the area of telecommunications, and the speech recognition equipment for computers, for an alternate way of entering data into the computers rather than the keyboard and that sort of thing.

Mr. SKELTON. Say that so I can understand it.

Mr. KEE. You can talk to the computer and it does what you want it to, rather than keying stuff on the keyboard.

And, so, our goals are to create a system for exporting products in the future that is very cost efficient and will comply with all the Government regulations that we know are going to happen to us in the near future.

And, because we're engaged in technology areas that are not as restricted as they will be in the future. And, our goal is to export at least 30 percent of our products to other countries.

In order to do this, we want to create channels of distribution that will provide service to conform to the country customs and minimize product costs to the end users, and we want to provide good, marginal revenues, and competitive positions to export a superior high performance product.

We believe that this kind of technology in the next 20 years will replace oil as a major resource for the import/export, and become the basis of the technology basis rather than an energy basis for the U.S. economy in general. And, we want to maintain proprietary or secret status for our inventions or products, our technologies, and the various countries that we export to to disclosing minimum amounts of data in order to get licenses for this export process.

Now, our assumptions and some of the reasons I came here today, we assume that the U.S. Government wants to stimulate the export of high technology products. Certainly consistent with the foreign policy, and the U.S. Government is working toward the goal of balancing our trade deficit, so we can have better recovery and the rest of it than we have today, with the $225 billion trade deficit that we experience right now.

The Department of Commerce, and this is a general assumption, I didn't exactly—the Department of Commerce, there should be some Government agency that, in the future, might act as a focal point for all the Government agencies for the small business to deal with in their trade relations and logistics, rather than having to deal with the State Department on one issue, the Department of Commerce on another issue, and then getting zapped by DOD on another issue and so on. You know, if you have one Government agency where we have a one-stop shopping for all the logistics and regulations, that we deal with today, this would be very helpful in both assimilating comments and dispersing information to the small business for the export product process.

And, then, my last assumption was that Congress will react to provide laws to both stimulate U.S. exports and protect the U.S. economy—companies in the exercise of free enterprise system that we enjoy here today.

Now, our experience to date, over the last 2 years, has been that the trade specialists, both in the Department of Commerce and the Texas Industrial Commission, have been very helpful in providing information in order to stimulate the product export operations. We have found that these services are both helpful and extensive.

Our technology and products have not been considered a strategic commodity to date, but we expect them to be considered that in the future. Products export has been accomplished in several countries by us to date. We have shipped to England, we have shipped to Australia and other places, no problem at all.

Our concerns for the future are that the restrictions on the new technology and products that we produce will allow us to build up this system of logistics and the rest of it and make investments in export business in other countries, and then get cut off, and I think that's the real concern.

Of course, we want to comply with all the kinds of restrictions that are necessary to protect the export of technology into other countries and protect our position in the world today, but there should be some sort of a feedback in order to let us repackage the technology in a way that we can export it.

And, we can be very innovative in the way we package and produce products and services and if we have the direct feedback, we can accomplish this.

The electrical standards and electronic standards that we deal with today in other countries, you wouldn't believe. DDU requirements, this is European requirements, the electronic emissions, not just electrical condition standards, that we deal with today are quite stringent and they change from country to country. We can generally deal with these kinds of problems. The problems that we deal with, they seem to be insurmountable, are being able to make a commitment, keep it, provide parts and service on an ongoing basis, once we have gotten some sort of trade relation started.

And, so, we need counseling on country customs, trade, and the most efficient system in these countries we deal with. One of the major things I'm worried about is protecting our proprietary rights. We rely on U.S. copyright law, U.S. patent law. We also file patents in the countries that we ship to, but, still, there should be other ways that we can do some arm twisting or whatever to protect our proprietary rights in the countries we ship to.

And, having a one-stop shopping trade compliance, we believe, would add to the general efficiency while being responsive to the U.S. and foreign issues. So, that's the summary of my testimony.

Mr. SKELTON. Thank you very much. Mr. Kee.

[Mr. Kee's prepared statement follows:]

PREPARED STATEMENT OF CHARLES R. KEE, PRESIDENT, SCOTT INSTRUMENTS CORP.

GOALS

° To create a system that comprehends U.S. Government regulations, Destination country regulations, logistics, costs and technical requirements.

° Scott Instruments is to export at least 30% of its products.

° Create channels of distribution that will provide service, conform to current country customs and minimize product cost to end user.

° Provide good marginal revenue increase and competitive position through the export of superior price performance products and technology.

° Maintain proprietary or trade secret status of inventions, products, and technology in countries we are exporting to.

ASSUMPTIONS

° U S government wants to stimulate export of high technology products. (consistent with foreign policy).

° The U.S. government is working toward a goal of a balance of trade

° Department of Commerce will act as focal point for all government agencies in trade relations and logistics.

° Congress will react to provide laws to both stimulate U S export and protect U S companies in a free enterprise environment.

EXPERIENCE TO DATE

° Trade specialists both within the Department of Commerce and the Texas Industrial Commission have been very helpful in providing information and help in order to stimulate product export operatons.

° We have found these services to be both helpful and extensive.

° Scott's technology and products have not been considered a "strategic commodity" to date.

° Export has been accomplished in several countries.

CONCERNS FOR FUTURE

° Restrictions on new technology and products.

° Packaging to overcome restrictions.

° Electrical and Electronic standards compliance.

° Counseling on country customs for trade for most efficient systems.

° Protection of Scott's proprietary rights.

° Having one stop shopping for trade compliance.

° General efficiency while being responsive to U.S. and foreign policy issues.

SCOTT
INSTRUMENTS

1111 Willow Springs Drive • Denton, Texas 76205
(817) 387-9514 • Metro: 434-2563

I have divided my comments into four areas:

(1) Scott Instruments' goals for export in the future;

(2) general assumptions ;

(3) experience to date in our two years of exporting;

(4) Scott Instruments' concern for future exports of technology and products.

Our general goals are to create a system that complies with United States government regulations, the regulations of the destination country, and the logistics of necessary paperwork and forms. We wish to create a cost effective system that will comply with the detailed technical requirements of each country we ship to.

Our goal is to increase our export business in the next two years to a level of 30% of our product revenues. In order to accomplish this we will have to create new channels of distribution within target countries that will provide a high level of service and confidence to commercial customers and minimize product costs to end users. This is necessary in order to provide marginal revenue increases for Scott and to create a competitive position or environment through superior price , performance, products and technology.

Although I mention this last, a major goal of Scott is to maintain the trade secret status of our inventions, products and technology in the various countries we will export to.

Our general assumptions are that the United States government wants to stimulate the export of high technology products around the world. Of course this is predicated on the adherence to a consistent foreign policy position by our government. Exporting, especially in the high technology area, should go a long way in the future to help the balance of U.S. trade.

Another general assumption is that the Department of Commerce will act as a focal point for all government agencies in trade relations and logistics.

The last general assumption is that congress will react to provide laws to stimulate export and protect U. S. companies in a free enterprise environment. It has been our experience to date that trade specialists, both with the Department of Commerce and the Texas Industrial Commission have been very helpful in providing information and help in order to stimulate product export operations for Scott Instruments. We have found these services to be both helpful and extensive.

Scott's technology and products have not been considered a "strategic commodity" to date, although we expect that some of our new technology and products will have strategic import in the future. We have easily exported speech recognition devices to countries such as England, Australia and Switzerland with minimal effort thus far.

Our concerns for the future are in the area of restrictions on new technology and products and working with government agencies to package technology to overcome restrictions with electrical and electronic standard compliance for the various companies we hope to deal with. In order to accomplish our goals we will need counseling not only on marketing issues in each country but also on customs and standards in order to produce the most efficient systems.

Another major concern of Scott Instruments in the future is protecting our proprietary rights. Of course, we already own patents and copyrights in the United States and countries we ship to. However, we will be walking a thin line between proper disclosure of proprietary technology.

It is our hope that the Department of Commerce can provide one stop shopping not only for appropriate counseling and logistics support, but as an interface for dealing with all necessary government agencies. Scott wants to have a great deal of general efficiency while at the same time being responsive to U.S. foreign policy issues. We believe that a signle interface for this purpose would be helpful to accomplish both goals: that of efficiency and that of responsiveness to small businesses.

Charles R. Kee, Jr.
President and CEO
Scott Instruments Corporation

TESTIMONY OF GEORGE GIBSON, CERTIFIED MEMBER, SERVICE CORPS OF RETIRED EXECUTIVES, AND MEMBER, INTERNATIONAL EXECUTIVE SERVICE CORPS

Mr. GIBSON. George Gibson, Texas, and I'm a certified member of SCORE.

Mr. Chairman and Members of Congress, it is indeed a pleasure for me to appear before such an elite group of Congressmen, and to be part of this prestigious panel.

I am a unique member of this panel in that I am part of the business community, working both sides of the street, so to speak; business and government. I am a member of the Service Corps of Retired Executives, SCORE, and also a member of the International Executive Service Corps.

My business experience was with General Motors Corp., and 3 of my 32 years was in the United Mexican States. So, I can speak with some authority to the business community in promoting export trade.

One thing I am certain of is that the survival, profitability, and growth of small businesses in this country requires the helping hands of dedicated men and women who can share their know-how with current and prospective business owners and managers. That is what SCORE is all about, dedicated business men and women willing to assist small business on a free basis.

My colleague, Jim Ingoldsby, and myself represent SCORE 2 days a week in the Denton area. We bring over 70 years of business experience to our clients. We are a satellite of the Dallas chapter and enjoy a very fine relationship with the local Chamber of Commerce. All business assistance inquiries are referred to us by the chamber personnel.

Denton has been described in the visitor's guide as a small Texas town with a big heart. The last part is true, but we are no longer a small Texas town. We have outgrown that classification, but we

have certainly not outgrown the big heart. The world is now our market in Denton.

Our satellite in Denton is part of the regional office in Dallas, which provides services to the metroplex of Dallas, Fort Worth, and 72 surrounding counties. This area, as you're well aware, is one of the fastest growing areas in the United States, and as members of SBA, we have a story to tell to the business community.

More than ever before, it is clear today that world trade is essential to the health of the American economy, and the growth of most U.S. companies. And, this is especially true for small businesses with the advent of increasing foreign competition at home. Entering the overseas market offers exciting opportunities to increase company sales and profits. As members of SCORE, when we are working with clients, we stress the advantages which can accrue from exporting.

We talk about increased profits, additional markets, increased productivity activity, to say nothing of the tax advantages.

But, in most cases, when a business entrepreneur approaches the SBA office for assistance, we find that they do not understand or have even considered the export market. They have a fear of the unknown.

They have read accounts in the newspapers about foreign governments not being able to make their debt payment and they feel that they would not be able to collect payment for their products in this seemingly unstable business climate.

When we do have a business that is interested in getting into export, which, incidentally, is all too seldom, we review with them a very fine SBA publication entitled: "Is Exporting For You?" As members of the Small Business Committee, you should be complimented for providing a vast amount of publications to assist the business community in considering the export market. The publications are well organized and are written in a manner that makes them easily understandable by our clients.

We urge you to keep them updated and available to all of our counseling centers. Our counseling centers have only a few members that are knowledgeable of the export market, and these publications not only assist our clients, but they make our members more cognizant of the various programs that are available to them.

Another publication is the SBA Fact Sheets, published by the Office of Public Communications. They are very informative and they highlight all of the programs. These publications are current, informative and I might suggest to the panel that members of SCORE and ACE be put on a mailing list and every new publication be sent to them on a regular basis in order to keep them fully informed.

Gentlemen, as I said before, I cover both sides of the street and, therefore, have not become personally involved with complying with Government regulations. I do, however, have some recommendations that I'd like to propose in order to assist and to encourage more new and on-going businesses to enter the export market.

No. 1, SBA needs to implement a program to increase the training of SCORE personnel.

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The Dallas SBA personnel are all very aware of the all the various export programs and aids. However, they counsel with less than 10 percent of the clients.

We need a training program that will make all members of SCORE who counsel with 90 percent of the clients in Dallas and Fort Worth to be more knowledgeable of the Government's export assistance that's available.

When a client expresses interest in export, he is counselled by an experienced person if one is available.

You will note I said if the client expresses an interest in export and if we have an export counsellor available.

Gentlemen, that's not the way it should be. We in SCORE should do the suggesting. But, to do this, we need to be conversant with the Government export assistance. We need to be conversant in order to counsel new businesses and encourage them to explore these new markets.

SCORE, ACE, and SBA personnel counsel new businesses daily. These are the grass roots personnel and in a great many instances, they are the first, the only person that the new entrepreneur counsels with. We can increase the number of export firms if our members are properly trained.

No. 2, The export loan program should be assigned to one person in each SBA district office. It should be that person's sole responsibility.

We have very capable people handling it, but they wear too many hats. They are involved with the VA loan program, certified development program, guaranteed direct loan program, bank meetings, seminars, to say nothing of public relations responsibility.

Plus, the recently implemented export loan program. Again, gentlemen, I cannot over-emphasize the fact that if we're serious about getting the export business through our SBA office, the position of loan officer should be a full-time position in the district SBA offices.

Now, if you want to know how SBA feels about this recommendation, you'll have to ask them. But, as a representative of SCORE, and IECS, I feel that it would be very beneficial to have one person in this program available to train SCORE and ACE personnel in the export loan program.

No. 3, we need to do a better job of letting the business community know that there are many Government agencies willing to assist them in entering the untapped market.

I say I believe we need to do a better job in getting the story across because although the export loan program has been in existence for 18 months, only one loan has been processed in the Dallas office. And, I'm told there are very few inquiries each week.

The export loan program is new and we need to alert the business community. Gentlemen, again, let me thank you for allowing me to appear before you, and we in SCORE are ready, willing, able and I might add trainable to assist the business community.

Thank you.

[Mr. Gibson's prepared statement follows:]

PREPARED STATEMENT OF GEORGE GIBSON, CERTIFIED MEMBER, SERVICE CORPS OF RETIRED EXECUTIVES, AND MEMBER, INTERNATIONAL EXECUTIVE SERVICE CORPS

It is indeed a pleasure for me to appear before such an elite group of Congressmen, and to be part of this prestigious panel.

I am a unique member of this panel in that I am part of the business community, working closely with both sides of the street; business and government. I am a member of the Service Corps. of Retired Executives (SCORE) and also a member of the International Executive Service Corps. My business experience was with General Motors Corporation, and three of my 32 years was in the United Mexican States, so I can speak with some authority to the business community in promoting export trade

One thing I am certain of is that the survival, profitability, and growth of small businesses in this country requires the helping hands of dedicated men and women who can share their know-how with current and prospective business owners and managers. That is what SCORE is.....dedicated businessmen and woman willing to assist small business.

My colleague, Mr. Jim Ingoldsby and myself, represent SCORE two days a week in the Denton area. We bring over 70 years of business experience to our clients. We are a satellite of the Dallas Chapter and enjoy a very fine relationship with the local Chamber of Commerce. All business assistance inquiries are referred to us by Chamber personnel.

Denton is described in the Visitor's Guide as a small Texas town with a big heart. The part part is true, but we are no longer a small Texas town. We have outgrown that classification, but we have not outgrown the "big heart". The world is our market.

Our satellite in Denton is part of the SBA Regional Office in Dallas which provides service to the metroplex of Dallas, Ft. Worth and 72 surrounding counties. This area is one of the fastest growing areas in the U.S. As members of SBA we have a story to tell to the business community. More than ever before, it is clear today that world trade is essential to the health of the American economy, and to the growth of most U.S. companies. This is especially true for small businesses with the advent of increasing foreign competition at home. Entering the overseas marketplace offers exciting opportunities to increase company sales and profits. We in SCORE stress with our clients the advantages which can accrue from exporting:

Increased Profits
Additional Markets
Offset Lack of demand for seasonal products
Lower per unit fixed costs
Increased number of customers
Better utilization of company personnel
Increased productivity
Tax advantages

In most cases, when a business entrepeneur approaches the SBA office for assistance, we find that they do not understand, or have even considered the export market. They have a fear of the unknown. They have read accounts in the newspapers about foreign governments not being able to make their debt payment and they feel that they would not be able to collect payment for their products in this seemingly unstable business climate. When we do have a business that is interested in getting into export, which, incidentally is all too seldom, we review with them a very fine SBA publication entitled: "Is Exporting For You". As members of the small business committee you should be complimented for providing a vast amount of publications to assist the business community in considering the export market. The publications are well organized and are written in a manner that makes them easily understandable by our clients. Please keep them updated and available to our counseling centers. Our counselling centers have only a few members that are experts in the export business, and these publications not only assist our clients but they make our members more cognizant of the various programs available.

Another publications is the SBA Fact Sheets, published by the Office of Public Communications. They are very informative as they highlight and explain various programs. These publications are current, informative, and I might suggest that members of SCORE and ACE be put on a mailing list and every new publication be sent directly to them on a regular basis.

Gentlemen, as I said before, I cover both sides of the street and therefore have not become personally involved with complying with government regulations. I do, however, have some recommendations that I would like to propose in order to encourage more new and ongoing business to enter the export market.

1. SBA NEEDS TO IMPLEMENT A PROGRAM TO INCREASE THE TRAINING OF SCORE PERSONNEL.
   The Dallas SBA personnel are all very aware of the various export programs and aids. However, they counsel

with less than 10% of the clients. We need a training program that will make all members of SCORE who counsel with 90% of the Dallas clients and 100% of the satellite clients knowledgeable of the government export assistance available. When a client expresses interest in export he is counselled by an experienced person if one is available. You note note I said if the client expresses an interest, and if we have an experienced export counselor available. We in SCORE should do the suggesting, and to do this we need to be conversant with government export assistance in order to counsel with new businesses and encourage them to explore these new markets. SCORE-ACE and SBA personnel counsel with new businesses daily. These are the grass roots personnel and, in a great many instances, they are the first and only person that the entrepeneur counsels with. We can increase the number of export firms if all our members are properly trained.

2. THE EXPORT LOAN PROGRAM SHOULD BE ASSIGNED TO ONE PERSON IN EACH SBA DISTRICT OFFICE. If should be that person's sole responsibility. We have very capable people at the grass roots level but they wear too many hats. They are involved with VA Loan Program....Certified Development Company Program.....Guarantee Direct Loan Program.....Bank Meetings....Seminars, to say nothing of the public relations responsibility. Plus, the recently implemented export loan program. Again, I cannot overemphasize the fact that if we are serious about getting into the export market through our SBA offices, the position of Loan Officer should be a full time position in the district SBA office. If you want to know how SBA feels about this recommendation, you will have to ask them. As a representative of SCORE and IECS I personally feel that it would be very beneficial to have one person in this position available to train SCORE personnel in the export loan program. This person would need to work closely with "The Department of Commerce" and the "International Trade Administration".

3. WE NEED TO DO A BETTER JOB in letting the business community know that there are many government agencies willing to assist them in entering the untapped export market. I believe we need to do a better job in getting our story across because, although the export loan program has been in existence for 18 months, only one loan has been processed in the Dallas office. I am told that there are only a few inquiries each week. The Export Loan Program is new and we need to alert the business community to avail themselves of the services.

Gentlemen, again let me thank you for allowing me to appear before you. We in SCORE are ready, willing,and able and trainable to counsel with the business community and encourage their participation in the world markets.

Mr. SKELTON. Thank you, Mr. Gibson. Mr. Adel?

TESTIMONY OF JOHN ADEL, INTERNATIONAL SALES MANAGER, STB SYSTEMS, INC.

Mr. ADEL. Thank you, Mr. Chairman.

My name is John Adel, and I'm international sales manager for STB Systems, Inc, at 601 North Glenville in Richardson, TX.

We manufacture expansion products for personal computers. STB Systems was founded almost 3 years ago by the four current officers and owners.

In that time, STB has grown into a company with sales of $12 million. For STB to survive in this highly competitive market——

Mr. SKELTON. Excuse me. What are expansion products?

Mr. ADEL. I thought you might ask that.

Personal computers as they are currently on the market, the majority of them, have the ability to expand what they can do through expansion slots inside the computer. We manufacture the products to stick in those slots to enable it to do other things, run printers, for example, or answer the telephone. That type of thing. We make add in products for them.

The scope of my testimony is going to be very narrow. Under the current export licensing regulations, my greatest obstacle to the creation and maintenance of effective international marketing efforts is the U.S. Government. STB currently employs 45 people. If we can meet our goal, the establishment of an international marketing program, we will increase our number of employees by another 45.

The other benefits to my company are new business opportunities, increased sales, the ability to more effectively resist downturns of domestic economic cycle, and, of course, generating greater profits.

Under the current export licensing regulations, STB has encountered several problem areas. Not only are the current licensing procedures slow and obscure, they are also confusing and expensive to a small company like ours.

STB does not have the time nor the money to hire expensive lawyers to work with the Department of Commerce on our behalf. Further, the current procedures require an additional expense in personnel just to administer and coordinate our efforts with our own Government.

These factors not only affect productivity and profit, but they also put our company at several competitive disadvantages. For example, STB had applied to the Department of Commerce in late January of this year, for a export license for a customer in England.

The license was finally granted in June 22. Due to the delay, the customer informed us in early June that they were going to a foreign competitor who was able to ship their order immediately. In a competitive environment where products are close in price and performance and product life cycles are short, delays like I have described can be fatal to a small business. It is this type of Government interference that permits many small businesses from even entering the international marketplace.

I have several recommendations for improvements in the current export licensing procedures within the Department of Commerce.

I recommend that definite time and reporting procedures be instituted so that a small business will know at all times at what stage an application is, when it will progress to the next stop in the process and, if there are any problems with the application, the company can be informed and can take corrective measures.

Further, I would recommend that at each stage of the approval process, a specific case officer at the Department of Commerce be identified as responsible for the application at that stage and that the officer be available to answer questions about the application.

Under the current system from the day the application is submitted until it finally is mailed back to a business, we are only informed that the application is in process. No further explanations are given.

As for the long term, I feel that all licensing should be dropped completely. Since our allies will probably insist on some type of procedure, I recommend that for all products that are readily available outside the United States, that a reporting rather than a licensing system be instituted. Under any system, definite time and accountability standards must be impressed on the Department of Commerce. The majority of products now trapped in current classification systems are readily available outside our country and represent no military or security threat to the United States of America.

Unless the current licensing procedure is streamlined, international business will not be an available option for small companies like STB.

America is a great industrial nation. The heart of American industry is small business. Many small American companies are owned and managed by patriotic Americans. When required by interest of American national security, these people will always respond with appropriate effort and sacrifice.

However, even the most well-intentioned laws can be overcome by progress and change. We at companies like STB Systems will always comply with the law. The problem that I have been address-

ing today is an example of regulations rendered in part irrelevant by a changing world market.

The current regulations represent an absolutely unnecessary obstacle to entry to international markets for small companies that are trying to grow and expand. If new, young companies, like ours, are ever to achieve competitive success over ever-aggressive foreign competition in world markets, the regulations of our Government must be changed to, at the very least, enable these small companies to compete effectively.

Thank you, Mr. Chairman.

[Mr. Adel's prepared statement follows:]

Prepared Statement of John Adel, International Sales Manager, STB Systems, Inc.

Thank you Mr. Chairman, for allowing me to discuss with you this important matter to small business; that is international trade. My name is John Adel, I am International Sales Manager for STB Systems Inc. in Richardson, Texas. We manufacture expansion products for personal computers. STB Systems was founded almost three years ago by the four current officers and owners. In that time STB has grown into a company with sales of $12 million. For STB to survive in this highly competitive market, we must establish ourselves in the international marketplace. The scope of my testimony is very narrow. For STB to grow and, indeed, to survive, we must have at the very least, more efficient and timely export licensing procedures. Under the current regulations my greatest obstacle to the creation and maintenance of an effective international marketing effort is the U.S. Government.

STB currently employs 45 people. If we can meet our goals in the establishment of an international marketing program we will increase our number of employees by another 45 people. The other benefits to STB are new business opportunities, increased sales, the ability to more effectively resist down turns in the domestic economic cycle, and of course generate greater profits.

Under the current export licensing regulations STB encounters several problem areas. Not only are the current licensing procedures slow and obscure, they are also confusing and expensive to a small company like ours. STB does not have

the time nor the money to hire expensive lobbyists to work with the Department of Commerce on our behalf. Further, the current procedures require the additional expense in personnel just to administer and coordinate our efforts with our own government. These factors not only affect productivity and profit, they also put our company at several competitive disadvantages. For example, STB applied to the DOC in late January of this year for a license for a customer in England. The license was finally granted on June 22nd. Due to this delay our customer informed us in early June that they were going to a foreign competitor who was able to ship their order immediately. In a competitive environment where products are very close in price and performance and product life cycles are short, delays like I have described can be fatal to a small business. It is this type of government interfearance that permits many small businesses from even entering the international marketplace.

I have several recommendations for improvements in the current export licensing procedures within the DOC.

I recommend that definite time and reporting procedures be instituted so that a small business will know at all times at what stage an application is, when it will progress to the next stop in the process and, if there are any problems with the application, the company can be informed and can take corrective measures. Further, I would recommend that at each stage of the approval process a specific case officer at the DOC be identified as responsible for the application at

that stage and that the officer be available to answer questions about the application. Under the current system from the day the application is submitted until it finally is mailed back to a business we are only informed that the application is "in process". No further explanations are given.

As for the long term, I feel that all licensing should be dropped completely. Since our allies will probably insist on some type of procedure I recommend that for all products that are readily available outside the United States that a reporting rather than a licensing system be instituted. Under any system definite time and accountability standards must be impressed on the DOC. The majority of products now trapped in current classification systems are readily available outside our country and represent no military or security threat to the United States of America.

Unless the current licensing procedure is streamlined, international business will not be an available option for small companies like STB.

America is a great industrial nation. The heart of American industry is small business. Most small American companies are owned and managed by patriotic Americans. When required by interest of American national security these people will always respond with appropriate effort and sacrifice. However, even the most well-intentioned laws can be overcome by progress and change. We at companies like STB Systems will always comply

with the law. The problem that I have been addressing today is an example of regulations rendered in part irrelevant by a changing world market. The current regulations represent an absolutely unnecessary obstacle to entry to international markets for small companies that are trying to grow and expand. If new, young companies like ours are ever to achieve competitive success over ever agressive foreign competition in world markets, the regulations of our government must be changed to, at the very least, enable these small companies to compete effectively.

Questions

1. The current Export Administration Act tries to strike a balance between the security interest of the U.S. and her allies and the needs of American business. On balance is the current law working?

2. Can you cite any specific examples of the current law actually preventing your company from conducting business?

3. Do you agree or disagree that there must be some licensing procedures?

Mr. SKELTON. Thank you. Mr. Vandergriff.

Mr. VANDERGRIFF. Thank you, sir. Mr. Adel, if I may, I'll ask you a question first because it's so fresh in my mind. You cited this case of your customer in England, and the extended length of time it required to receive the license.

Is that a typical experience? What is the average time you would say that is required to receive a license?

Mr. ADEL. I would say it was typical and frustrating. The average time is hard to pin down because after the battle last year in Congress to amend the Export Administration Act, the Department of Commerce apparently decided to dig in its heels because it was getting no direction from the Executive or from the Congress, quite frankly.

And, as a result, the licensing procedure times have gone into some state of limbo. I can remember a year ago today, being in Washington at the Department of Commerce, trying to spring some applications out that had been in there for months, and I was successful within a couple of weeks of springing them.

This year, in this period of time, it's taking an unconscionable amount of time, and the only explanation I've been able to get, direct answer, is that they are just taking their time on the applications.

To say what the average is, I cannot say because it varies every time I put a license in. I have not had a license applied for since January that I've received, except for the one I mentioned, and I'm forever on the telephone with them.

Mr. VANDERGRIFF. I see. Now, can we assume from what you're saying that the present laws, procedures actually at times prevent your company from conducting business overseas?

Mr. ADEL. Yes, sir. Correct. It's kind of ironic. The products we export fall into a commodity control, and it's basically to protect high-tech exports, but what we export is currently no longer high-tech; it's just applied technology, and we find that our competitors in Taiwan and other places in the Far East manufacture with the same components that we manufacture, are the ones that actually put us under the commodity control list, and are able to ship immediately, and we lose business all the time because we cannot ship as quickly.

Mr. VANDERGRIFF. I see.

Mr. ADEL. It's our job to try and develop quality business over there. Product life cycles are short. We have typically a 6 to 8 month life cycle for the product, and if it's a good product and we want to ship it, if we have to wait 6 months for a license, well, by that time, the people in the Far East catch up, and it has hurt us significantly. Once we get a license, we're OK. We can funnel our new products to the marketplace and compete, but we have been set back on several occasions.

Mr. VANDERGRIFF. All right. Mr. Gibson, I was impressed with some of your suggestions as to members of SCORE taking a more active role in the encouragement of exporting.

You talked about being better informed by SBA and various programs. Have you explored those possibilities with SBA itself?

I couldn't help but note your comment, rather pointed, I thought, that we should ask that question of SBA and we will, but I would just be interested if you've taken any initiatives in this regard.

Mr. GIBSON. I have made the desire known, I have made it known to SBA, saying we need to have more training of field personnel, especially in the satellites. People in Denton or Garland, where the satellites are, need this training. If someone comes in to talk about export, we don't have an experienced export person that they can turn them over to.

So, then, you go to the books and sometimes going through the books, you lose time and the a client's interest because he's already scared.

I have mentioned to SBA personnel in the Dallas office that we do need a better program for SCORE and ACE personnel in exporting, yes, sir.

Mr. VANDERGRIFF. I see. All right. Well, thank you very much.

I want to commend you with your background still assisting business with your experience. I think that's very good.

If I could ask a question of Mr. Kee. Mr. Kee, something you said prompted me to remember that I have heard others favor the creation of a Cabinet-level Department of Trade.

I'm wondering what your thoughts are on that subject.

Mr. KEE. Well, that's what I had in mind to do within the Department of Commerce or within some super-Department of Trade that could be created.

The point is that all the various regulations and requirements on trade, the coordination of foreign policy, the elimination, you know, understanding what products are generally available and throughout the world and taking things off of Government lists, you know, as secured items for export and that sort of thing, and once you get on the Government list as a secured item, it's easy to get on, it's hell to get off.

And, to have someone to police those kinds of things makes sense, and also be the focal point for the administration of all these policies. You know, you can—if you're going to deal with the State Department sometimes, the Department of Commerce sometimes, and so on, and the technologies are changing so much that people at—the reason we have a good—an easy go of exporting is, No. 1, we have high technology that nobody competes with us against, and, so, the problems with the licenses taking awhile doesn't matter.

What's going to happen within a couple of years from now, as technology gets infused into other products within the country, we're going to get cut off, I believe, and this new technology—see, speech technology didn't exist a few years ago.

So, the Department of Commerce and DOD didn't know what to do with it. So, we can send it out of the country. Now that they have figured out what it can do in terms of both military and communications products, they are going to cut us off in the future.

But, there needs to be some balance through some Department of Trade, I believe, so that the small business guy can have a one stop shopping with people that really understanding the process, can give you all the paperwork, the latest requirements of Congress

and the State Department and the rest of it, all right there in one office.

Mr. VANDERGRIFF. I'd like to pursue that point with you, but——

Mr. KEE. And, if you do that, I think you ought to eliminate the others that are there.

Mr. VANDERGRIFF. I see.

Mr. KEE. You know, you know, get rid of—you know, if you're going to create a supergency, don't just make one extra one; whack the others and use that money to create the super-agency.

Mr. VANDERGRIFF. I see. All right. I do want to pursue this with you later, but we will allow the members of the committee to ask questions, too.

Very quickly, let me direct a question to Mr. Martinez, if I may, Mr. Chairman.

You spoke of foreign companies who evidently perform these same services of packaging, and booking, and documentation. You have these competitors already in the market, do you?

Mr. MARTINEZ. Yes, sir. They have actually been amongst us for quite a number of years now. The biggest danger with this arrangement is that generally speaking in other parts of the world, the freight forwarder may engage in other activities, such as they may be part owners of a steamship line and/or an airline, and/or they may, in fact, have an ownership in a very large exporting company or vice versa.

Our Government laws do not permit a freight forwarder to enter into these ventures in the United States. So, what happens in Europe, for example, a very large forwarder may control a tremendous amount of cargoes because not only is he a large forwarder, but he is partly owned by an airline and maybe has interests in a steamship line and so on.

So, when you spread out all of these companies that are playing a role in this one freight forwarding company, you now have a very strong control mechanism, and what happens is that a forwarder can go to his supply, who he has serviced for many, many years, and say Mr. Customer, I would like for you to request that all future importers from vendor so and so in Dallas, TX, be routed via our service.

So, immediately, the day that they open their door in Dallas, they are very strong because they have all this tremendous backing and they do make good use of it.

So, it puts as a small local forwarder at a tremendous disadvantage.

Mr. VANDERGRIFF. I see. Thank you very much for that explanation. Of course, what you really would like to see, I take it, too, is your ability enhanced to establish operations in other nations——

Mr. MARTINEZ. Yes, sir.

Mr. VANDERGRIFF [continuing]. But you are handicapped in doing so by restrictions those Governments place upon you.

Mr. MARTINEZ. That's correct.

Mr. VANDERGRIFF. Finally, Mr. Jablonowski. Recently, the Congress passed legislation to encourage high schools, colleges to expand their foreign-language programs. One of the reasons this legislation interested me was that I have a feeling, and you reminded me of this fact as you spoke, that if we are really going to

become successful in exporting, we're going to have the need for more and more Americans to be expert in foreign languages.

You evidently have offices or associates in many countries. Would you agree with this assumption on my part? Is it a barrier to date to you, this inability to converse in foreign languages, or have you overcome that within your company?

Mr. JABLONOWSKI. Well, we have generally overcome it in that we do have people who can speak most of the major languages and fluently.

However, yes, I think the United States has suffered from being—you know, we only need to speak English a bit louder, and distinctly, and they'll understand us syndrome. Where we have run into it in a product way is the literature itself, which our producers generally, obviously, print in English.

If you look at the products which are manufactured outside the United States and imported here, you will generally find that at least a summary of directions for use, if you pick up a Taiwanese made product, for example, or a Japanese-made product, explanations for use are in three or four languages.

This is something which we as exporters are going to have to do to get into the marketplace. I commend Congress for that particular action in respect to languages.

Mr. VANDERGRIFF. Thank you. Thank you, Mr. Chairman.

Mr. SKELTON. Mr. Stenholm.

Mr. STENHOLM. I direct a question to you, Mr. Martinez, and I would like to get a reaction from the other panelists, if you have one.

You were very eloquent, very sincere in your praise of what America has given you in the way of an opportunity and what you perceive to be an opportunity here for others.

Then, on the other hand, you came back and complained a little bit about the competition that comes into this country from the standpoint you don't have the same opportunity in other countries that they have in this country.

My question is, what do we need to be doing in the Congress to level the playing field?

Mr. MARTINEZ. I only say that fair is fair. If we are going to open the doors to foreign competition, then they should open the doors to us. That's all I'm asking.

Mr. STENHOLM. Do we speak softly and carry a big stick? Do we use a rifle? I mean, what—how do we get there? We have been talking about this—to use the example of the Japanese, and the beef, and the citrus. We have been fussing with them for as long as I can remember in the Congress and out, but we seem to be able to just go very slowly.

Mr. MARTINEZ. Well, I think one easy way to do that is to develop a hard attitude toward giving these people the necessary licenses with which to operate. I mean, that's where it all stops.

If we do not have the appropriate licenses from the Federal Maritime Commission, or the CAB, or whomever, we cannot open our doors. These people have been granted authority by way of these licenses to operate, but it's being done in such an open manner that it's simply a formality, send in your request and it's granted automatically, that's the part that bothers me.

I think consideration should be given to the fact that let's turn the situation around. Let's say that forwarder A wants to open up in Tokyo, or in Germany, or wherever, does he have that same ability? Is your Government going to be as lenient of him as we are on you?

And, I think it's just common sense. That's the only approach that I can think of.

Mr. STENHOLM. Do you have a comment?

Mr. KEE. Maybe if you had a real quid pro quo, you know, like in Japan, you would force Toyota to use a trading company that exported and sell all their cars with an extra margin, as we are forced to do going into Japan, you know, it would probably add another 12 percent on top of the cars not because of Government tax on the thing, but because of the extra step you have to go through in order to deal with the distribution and the country.

So, if we had that country's law with respect to U.S. business reproduced for them to comply with here to some extent, then there might be more quid pro quo.

Mr. JABLONOWSKI. Congressman Stenholm, I would like to just mention one thing in connection with the Japanese, and this is in cooperation that we're receiving from the Jetro organization, Japanese Export Trade Organization, I believe that's the acronym, Jetro, which has offices in Houston, they are working with us very strongly right now to get our products into Japan.

I think—I don't know they have learned the message, but the Japanese have the message, but there are obviously other countries that don't have the message. I guess innately I have lived a life of free trade outside the United States as well as in.

I would hate to see further restrictive laws. I would rather see the efforts be, if you will, a la what we have done with Japan. Just give us equal treatment. If we're going to let your products in, let our products in. If we're going to let your freight forwarders in, let our freight forwarders in on the same message.

To me, that is a better way to go than flipping over and adding another bureaucracy tariff barrier to trade.

Mr. STENHOLM. Follow that with another question. Mr. Jablonowski, you mentioned the reluctance of Texas financial institutions to get involved in export trading companies. Why?

Mr. JABLONOWSKI. I think generally there are individual reasons. There have been, as you're well aware, a number of portfolio problems in the banks in Texas relating to energy, foreign loans, and so forth.

Their attention has been really—it's been difficult for them to focus on an E.T.C., for them, would be a new venture. And, finally, in a succinct way, the Texas banks have yet to really become international minded. They have large international departments who do what I would call general, and narrow, international banking, but they are not to the point really of thinking as international players such as some of your major money center banks on the east and west coast.

I personally think that there should be some way of encouraging all of the financial institutions to get involved because the law was passed. We had one title totally devoted to the financial institutions, and I was not living in the United States at the time but I

understand it was voted because they requested it, and once the law was passed, nothing really has happened in a major way which leaves the lack of support of banks affecting our exports today.

We could be doing a great job with financial support.

Mr. STENHOLM. One final question to all of you. There seems to be a similarity of complaint regarding the inadequacy of the Department of Commerce in dealing with opportunities for small business in trade. There seemed to be in all of what you were saying, the lack of education, lack of a one-stop shopping center.

My question is, have you had any experience, favorable or unfavorable, with the Office of the U.S. Trade Representative?

Mr. JABLONOWSKI. Here?

Mr. STENHOLM. In the United States, yes.

Mr. JABLONOWSKI. I would like to come to the defense of the Department of Commerce a little bit. The local Department of Commerce has been extremely supportive to my organization. They have referred several potential exporters to us as they have come along the pike, that have been interested. I would fault other agencies of the Federal Government who have failed to use what the Department of Commerce offers in its 26 regional offices.

Now, I was told in a recent meeting, an export meeting, by a representative of Export/Import Bank, that they plan to use the Department of Commerce regional offices to handle credit decisions rather than going through Washington. I have not seen that happen yet. I hope to hear something more about that maybe through the later witnesses today.

But, I would say that we have felt support rather than deterrant from Commerce. We have not suffered yet and this doesn't mean that we won't, but we have not suffered yet what the high-tech, pure high-tech people are suffering on export licenses, and I certainly sympathize with that.

Mr. MARTINEZ. I'd like to make a comment about the local office of the Department of Commerce. I have been associated with them for many years, and I think that they are doing a magnificent job of promoting exports, which is their primary function in the area.

I think anyone in the area would speak up and, you know, compliment them for a job well done. I think the real problem with the export licensing process is a twofold problem.

One is that the Department of Commerce, while they have the ultimate say, in the application being granted or not, because of the President's exodus program, which came into being a couple of years ago, now Customs is playing a much bigger role in exporting, and we have a situation where Customs has not really been adequately trained for that job.

But, yet, Customs is making a lot of decisions at a certain level within Customs that are a detriment to exports because, at this point, shipments are being stopped from being exported, or are being questioned about legality of whether or not they should be exported, when, ultimately, the final word is given by the Department of Commerce because they are the ones that are really trained to know what is licensed and what is not.

And, so, there is not a conflict necessarily between the two departments, but there is a lack of coordination because of the new process that has taken place as a result of exodus.

But, I'd like to say the local office of Commerce Department is a super office.

Mr. ADEL. I'd like to second that. The local office of the Department of Commerce has been very, very helpful to me and my company. They will come out to your place of business, they'll try to assist you.

One of the problems they've got is they don't have the authority. If we could somehow regionalize the licensing process, for example, if we could somehow regionalize it, institute some kind of preapproval at the local office where they know the companies, know the principals, know the products, it would be beneficial. Whereas Washington, they do have some ability to assist a local company like myself in Washington, it's very limited. It's very, very limited.

They are good people with good intentions, but they don't have the tools to really get down in the dirt with you and help you out, when it comes to things like licensing in Washington, and when it comes to things like Customs.

I had a recent experience with Operation Exodus myself, which was just absolutely silly. I mean, it was a product that Customs didn't know what they were doing when they seized it. But, Commerce couldn't help me. They couldn't, even though they tried, and they tried very hard to do it. I'm talking about the local office.

So, I would second what they have both said about the local office. They are very good people in the local office. They try very hard. I would just say they don't have very much authority to help their client.

Mr. STENHOLM. Thank you.

Mr. SKELTON. Thank you, Mr. Stenholm.

You maybe interested, and I'm not sure, you will recall during 1980, I had a bill that I introduced with a few cosponsors that did establish or would have established a one-stop small business export system, to have a person at each office that did nothing but export work. They would have assisted with languages, would assist in finding potential customers overseas, and a minor part of my bill was adopted as an amendment in conference, which allowed the Commerce Department to get into the act a bit more.

But, it's rather heartening to know that the comments today, we still need what we were recommending back in 1980. I was concerned about your comment, and Mr. Stenholm touched on it, I know that Texas banks have entered the export business. I think it's probably on target. I'm sure it's true in Texas, I'm sure it's true in Missouri as well as across the land.

What about specific areas where there is potential? Very little has been said about Central and South America? I'd like to have each of your thoughts on that, the drawbacks and the pluses.

Mr. Jablonowski?

Mr. JABLONOWSKI. Well, first of all, Congressman Skelton, I would say much of my offshore experience has been in South America.

Mr. SKELTON. Oh, it has.

Mr. JABLONOWSKI. Four years in Brazil. I'm the Portugese speaker in our office. But, at any rate, "South America" is terribly generalized, but much of South and Central America today have cer-

tain problems which make it awfully difficult for American exporters to get there.

Mr. SKELTON. Such as?

Mr. JABLONOWSKI. Financial. They don't have the wherewithal to pay. This means, therefore, to those of us who are attempting to market the greatest amount of goods for the producers here, that we tend to go where the money is. We tend to go today to the Middle East, and we tend to go to Europe. We tend to go to the Far East because they are in better shape.

This is personally a big problem to me. I relate very well to Brazil. I feel like I'm half Brazilian, but that's the reason Central and South America, I would say, are being somewhat ignored as a place to do business because we don't know if we ship we will get paid. First of all, we don't know if we're going to get the letter of credit after the sale is closed and we can't ship without one.

So, we devote a lot of time and attention to making sales to Latin America that never materialize. We have attempted to participate in governmental tenders there. The same type of thing. A lot of redtape, never really get there, spend a lot of money selling, telephone calls and nothing ever really happens.

Very annoying, but that's just the way it is. Now, if we can encourage countertrade, more business in South America could be done. We happen to have a client on the west coast which is a major corporation, not small, that is a dealer in port facilities around the world, and most of the port facilities today are used in undeveloped countries that have nothing to pay for it with.

What we have done with them is go together and we are their countertrade party. If we can encourage the people in Brazil—the Central Bank of Brazil, for example, or the Central Bank of Mexico, and other of those nations to participate in countertrade, to find the goods that they do have to export, and trade the goods for goods, we are prepared to enter into countertrade agreements and see that those goods are marketed in the world, and our counterparty in California would, in turn, sell a $20 or $30 million piece of equipment to these countries.

So, we're not ignoring it, but it's really very difficult to do that in South America.

Mr. SKELTON. How great are the barriers to language, Mr. Martinez?

Mr. MARTINEZ. I have two comments to make about Latin America. No. 1, being the language barrier. I have traveled Latin America quite extensively, and I know the thinking behind most of the business people down there.

They feel that it's somewhat of an insult to them as a businessman that they are put in a situation where they are forced to speak English because they want to do business with the United States. They are just as proud of their language as we are of ours, so they feel that they are not being treated correctly, whereas when they get offers or quotes from the Far East or Europe, they do converse in Spanish with them.

So, I think that is a very, very big factor in dealing with Latin America. The other factor is that foreign countries are in a position to outbid us, so to speak, not because of the better quality of products, but simply because they have the foreign governments

backing these exports and are extending some very, very long terms, whereas we would think in terms of maybe 30 or 60 or 90 days.

For me, the 180 days these foreign countries can back the exporters for much longer periods of time. So, they subsidize the exporting business to some extent and I think that's why, another reason why we lose some of the exports in the Latin American market.

Mr. SKELTON. Any further questions of this panel?

Mr. VANDERGRIFF. Mr. Chairman, I would like to ask a question of really all the panelists with the possible exception of Mr. Gibson. This might not be something that he would be able to participate in as far as providing us with the necessary information, but I'd be interested in how many jobs out of your own personal experience, your respective firms, are dependent entirely upon exporting.

We have something of a job to do here in selling Americans on the importance of exporting, how dependent our country already is in that realm. So, if you could provide us, if not today, at a later date, information about your own respective endeavors, how many jobs you have that are really entirely dependent upon exporting. It might be very helpful to us.

Mr. KEE. Well, our company, we're pretty much doubling every year, and if you look at my ratio that I deal with, with like one job—I mean, yeah, one person per $100,000 in sales, that's the goal I'm trying to make.

So, you know, starting next year, if you assume 30 percent of the business in our company is done through international trade, then it would be something on the order of about 10 next year, followed by 20, 40 and so on.

Mr. VANDERGRIFF. I see. Very impressive. Thank you.

Counsel, did you have any questions?

Mr. ORBAN. Yes. Mr. Jablonowski, you mentioned earlier that it was very difficult to get our products into foreign markets. Do you perceive this to be any kind of unwritten trade barrier, or any kind of unfair trade practice?

Mr. JABLONOWSKI. The system. The system and I'll use Germany as an example, I'm talking about industrialized products now. You're going into an industrial user. It takes you about 3 months to get into the purchasing agent of the company or the purchasing manager, and then he spends a number of months in committee. That's their system. They look at a product, see it, taste it, so forth and so on. Then, they finally approve it. You're about 6 months down the road. It's simply the system, the way in which it's purchased.

We tend, in the United States, to be somewhat instant decision-makers, and if we decide if a roduct looks good, we'll try it and see how it goes. But, no, we have not run up against any per se trade barriers.

Mr. ORBAN. Seems like that would put foreign businesses at a disadvantage because it takes them so long to make a decision. It seems that we'd have an advantage in getting the high tech faster than they would.

Mr. JABLONOWSKI. I'm interested in listening to our high-tech people in this respect. I don't think we lack in the United States the technology. We talk about a technology gap. I don't think we

have one. We have certain technologies which have been created abroad, but we still have plenty of technology to sell. We are way ahead in general. I would say we don't have a gap.

Mr. KEE. We are way ahead in the area of technology, and it does give us an advantage in that once you—it takes a while to get in there. Sometimes as much as 1 to 2 years to really penetrate the market, but once you've penetrated the market, if the customer dislikes you, the problem that you have sometimes is penetrating a market, spending all the time and effort and then getting cut off for a period of time and then having to go back and—you know, once you cut a guy off, and he's dependent on your product, then he's going to try to second source you, and then you've got to go back and reestablish those relationships and then you still have got part of your market eroded by this period of time that you've gotten cut off as a supplier.

Mr. SKELTON. The schedule calls for Mr. James Sanders, who is Administrator of the Small Business Administration from Washington to testify at this time. I understand that he's a few minutes late, and is in route here, so we will take a 15-minute break as of this time. We will come back in 15 minutes for Mr. Sanders, and, gentlemen, thank you so very much for coming.

[A short recess was taken.]

Mr. SKELTON. We'll call our next panel.

Before proceeding further, I can't help but comment that the witnesses that we have had thus far have been excellent; rather than just hear complaints, we heard the problems and we also heard the various types of organizations.

And, quite frankly, for one, I am very impressed and I appreciate it, and I'm sure the committee is in agreement.

We're very honored to have the administrator of the Small Business Administration, who came in from Washington, to be with us, Mr. James S. Sanders. We welcome you and thank you for joining us.

TESTIMONY OF JAMES C. SANDERS, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION

Mr. SANDERS. Thank you, Mr. Chairman.

I think you have my written remarks and my statement.

Mr. SKELTON. If you'd like your written remarks to be made part of the record, we will do so without objection. You may summarize.

Mr. SANDERS. I'd like to do that. Thank you, sir. I'll try to hit some of the high spots of the statement.

First of all, I think it should be pointed out that we have almost 100 Small Business Administration field offices in the United States. Although our staff is only 4,000 people nationwide, we do maintain a directory of local, private, and public-sector resources that can assist a firm to begin exporting in each of those field offices.

Next, in cooperation with the U.S. Department of Commerce International Trade Administration and State agencies as well as through SBA-funded Small Business Development Centers, located in major universities around the country, the SBA cosponsors seminars on a wide range of export topics.

In this area, our district office works closely with the Dallas International Trade Administration to provide and promote this kind of training to the small business community. In fiscal year 1983, the SBA sponsored or cosponsored 438 seminars on international trade nationwide, attended by about 23,000 people. As of March 1984, an additional 181 such programs were attended by about 9,000 people so far in this fiscal year.

Our Small Business Development Centers and the SCORE chapters and Small Business Institute programs provide one-on-one international trade counseling. In fiscal year 1983, 5,951 firms were consulted by these SBA resources, and during the first 6 months of fiscal year 1984, almost 3,000 additional firms received that kind of counseling.

We have an agreement between the SBA and the Federal Bar Association, through which a small firm can receive additional free consultation with an attorney to discuss international trade related legal issues and concerns. There is a local SBA-Federal Bar Association coordinator appointed both in Dallas and Fort Worth. Mr. Vogelson and Mr. Macauley.

In addition to that, the Federal Bar Association has provided the SBA a handbook entitled: "Legal Aspects of Exporting: An Introduction," which discusses the various legal issues involved in trade. Copies have been distributed to all SBA offices.

Last fall, as many of you know, in 15 cities around the country, including Houston and New Orleans, the SBA conducted an export awareness campaign using radio and television news releases and press conferences and a direct mail campaign. We enlisted the involvement of all major international trade service organizations in those cities, including ITA, State departments of commerce, world trade organizations, district export councils, international bankers, et cetera.

They helped us respond to over 2,000 new inquiries that the campaign generated. Beginning this month, we have a new service available to small businesses through our network of field offices. It is designed to be easily accessible to facilitate the would-be exporter to take the first step—that is to do the initial investigation of the world market.

We hope that this particular information system will provide the small business owner with the data he or she needs to analyze the market for his or her products. This was furnished through the Small Business Development Center in Georgia, which, in turn, uses a data resource system of the United Nations.

Our district offices, on an ongoing basis, are trying to identify firms in the loan and PASS system and the 8(a) portfolio with export potential. This has just begun, and so far we have discovered a few good leads, but we have barely scratched the surface in that.

I would like to mention that we have been pleased with the cooperative efforts that have developed here in the Dallas area between the field offices of the Department of Commerce and the SBA in reaching out to new to export small businesses. Together, our offices sponsor approximately 15 workshops a year for new exporters. In addition, the offices recently held very successful training programs for local bankers and in conjunction with the Export/Import

Bank of the United States sponsored another seminar on export financing for small businesses.

This is one of the more than 35 seminars that the Eximbank and ITA and SBA will do around the country this year to explain both to the banking community and small business exporters what Government export financing programs are available.

I'd like to mention that in fiscal year 1983, as far as our lending activities are concerned in support of export financing for small businesses, we made 47 loans totaling $12.8 million to small firms that export. Of these, 22 of the 47 loans were export revolving lines of credit loans totaling $6.3 million and their balance, of course, were regular 7(a) loans.

In the first 7 months of 1984, we made 37 additional loans totaling $9 million to small firms that export, and of these, 19 were export revolving lines of credit loans, totaling $5.8 million.

In summation, Mr. Chairman, I would like to say that we recognize this as a priority for our country to involve small business in increasing exports. We lag far behind the major trading companies of the world, as you gentlemen well know, in the percentage of exports accounted for by small and medium sized businesses. We feel that we have certain handicaps in the way that our Federal Government is organized in approaching this kind of a problem.

With the SBA, of course, we do have a limited staff. We have between 15 and 17 people nationwide that are involved solely with international trade. As the SBA is organized, we have people who wear many different hats and the international trade expert in our local district office of 20 people may also be the Veterans' Affairs Officer or he or she may be the Women's Business ownership coordinator. So we try to expand and leverage our resources through the use of things like our Small Business Development Centers or Small Business Institutes.

Certainly, we always feel that our job is to inform, to raise awareness, and to get them in touch with such facilities as the Department of Commerce International Trade Administration, the U.S. Trade Representative, OPIC, if that's an applicable situation among other.

We feel we are facilitators. We are people who should turn to others for help and tell the people basically where they have to go to get the kind of assistance that they need.

We as you know, have continued to decentralize the SBA to put more authority in the local offices. I think that has increased productivity and increased our ability to respond. People don't have to come to Washington for a decision all the time.

We are pleased at the progress we have finally made with Eximbank. We will, shortly, be putting our names on the final documents to cooperate with Eximbank in putting our two loan authorities together and using the SBA offices as the distribution facilities for the Exim working credit, capital loan program. Under the program, a small business could receive up to $500,000 from the SBA and $500,000 from Eximbank to make a total line of credit available through the SBA office of $1 million.

We're pleased with that situation. As soon as that document is signed, and I have reason to believe it will be next week, we will

begin a training program for our loan officers to make them aware of the procedures for this new SBA program.

I would be pleased to answer any questions that you or the members of the committee have, Mr. Chairman.

[Mr. Sanders' prepared statement follows:]

PREPARED STATEMENT OF JAMES C. SANDERS, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION

Mr. Chairman and members of the committee: I appreciate the opportunity to appear before this committee today to discuss the U.S. Small Business Administration's [SBA] International Trade Program and ways in which the SBA can be of assistance to small businesses as they consider marketing abroad.

As this committee knows, the SBA's Office of International Trade was established, and assigned specific programs and tasks, in Public Law 96-481. Since that time, there has been substantial progress in developing and implementing programs to encourage more small firms to enter overseas markets.

OUTREACH AND COUNSELING

Through our network of field offices, the SBA actively promotes export awareness and provides basic information on the opportunities for exporting.

Each of our 100 field offices maintains a directory of local, private and public sector resources that can assist a firm to begin exporting.

In cooperation with the U.S. Department of Commerce's International Trade Administration [ITA] and State agencies, as well as through SBA-funded small business development centers located in major universities around the country, the Small Business Administration cosponsors seminars on a wide range of export topics. In this area our district office works closely with the Dallas International Trade Administration Office to provide and promote this training to the small business community. In fiscal year 1983, SBA sponsored or consponsored 438 seminars on international trade nationwide, attended by over 23,000 persons. As of March 1984, an additional 181 such programs were attended by over 9,000 business people.

Our small business development centers, Service Corps of Retired Executives [SCORE] chapters and Small Business Institute Programs provide one-on-one international trade counseling. In fiscal year 1983, 5,951 firms were consulted by these SBA resources. During the first 6 months of fiscal year 1984, almost 3,000 additional firms received such export counseling.

Under an agreement between the Small Business Administration and the Federal Bar Association [FBA] which I signed a year ago, a small firm now can receive an initial, free consultation with an attorney to discuss international trade-related legal issues and concerns. A local FBA/SBA coordinator has been appointed both in Dallas and Fort Worth.

In addition, the FBA has provided to SBA a handbook entitled "Legal Aspects of Exporting: An Introduction" which discusses various legal issues involved in interntional trade. Copies have been distributed to SBA offices.

Last fall in 15 cities around the country including Houston and New Orleans, the SBA conducted an export awareness campaign, using radio and television, news releases and press conferences, and a direct mail campaign. We elicited the involvement of all the major international trade service organizations in those cities, including ITA, State departments of commerce, world trade organizations, district export councils, international bankers, etc., to help respond to the over 2,000 new inquiries that the campaign generated. We will continue to explore and look for other innovative ways to reach additional, potential small business exporters.

Beginning this month, we have a new service available to small businesses through our network of field offices. It is designed to be easily accessible, and to facilitate the would-be exporter to take the first step, that is to do an initial investigation of the world market. This export information system will provide the small business owner with a data report which will list the largest 25 importing countries for his or her product, the 10 best markets for U.S. exporters of that product, the trends within those markets and the major sources of foreign competition. This information will help a business to decide whether or not to pursue exporting and, if so, which markets to research further, using ITA in-depth market information.

Our district offices on an ongoing basis are trying to identify firms in their loan, Procurement Automated Source System [PASS] and 8(a) portfolio with export potential. The new export information system data report will be a valuable tool to get

many of these firms to take their first look at the world market potential for their products.

I would like to mention that we have been pleased with the cooperative efforts that have developed in the Dallas area between the field offices of the Department of Commerce and the Small Business Administration in reaching out to new-to-export small businesses. Together our offices sponsor approximately 15 workshops a year for new exporters. In addition, the offices recently held a very successful training program for local bankers and, with the Export Import Bank of the United States, sponsored another seminar on export financing for small businesses. This is one of more than 35 seminars that the Eximbank, ITA and SBA will do around the country this year, to explain to both the banking community and small business exporters what government export financing programs are available.

EXPORT FINANCING

In export financing, the SBA would like to do more. We believe that, as a result of these financing seminars, there will be an increase in demand both from the banks and the small business community for our programs. During this fiscal year, we have seen a significant increase in our number of loans to small firms that export, although the absolute numbers remain small.

In fiscal year 1984, we made 47 loans, totaling $12.8 million nationwide to small firms that export. Of these, 22 were export revolving line of credit loans [ERLC] totaling $6.3 million.

In the first eight months of 1984, we made 37 additional loans, totaling $9 million to small firms that export. Of these, 19 were export revolving line of credit loans totaling $5.8 million.

Interest in our export financing program has increased. Our Dallas district office, for instance, currently is reviewing its first loan application under the ERLC program and knows of two other applications that will be submitted shortly. So I think the information on what we have to offer finally is getting out to the banking and the small business exporting communities. As a result, we anticipate increased utilization of our export loan programs in the coming months.

In addition, we anticipate signing an agreement with the Eximbank shortly whereby we can use its authority to guarantee export lines of credit up to $1 million, with SBA and Eximbank sharing equally in the risk. As you know SBA's statutory limit is $500,000 of exposure per firm. Under this proposed agreement small firms would have the opportunity to obtain double that amount and, as importantly, they would be able to obtain this Government loan guarantee anywhere in the country through their local SBA office, without the inconvenience of having to go directly to the Eximbank in Washington.

EXPORT PROMOTION

In the area of export promotion, the Small Business Administration has been instructed by Congress to encourage more small firms to participate in international trade shows and trade missions. We have interagency agreements with other Federal departments and agencies, including the International Trade Administration, the National Oceanic and Atmospheric Administration/National Marine Fisheries Service, and the U.S. Department of Agriculture/Foreign Agriculture Service, to accomplish this.

We consider it crucial for small business to meet foreign buyers face-to-face and to participate in international events where they can better evaluate their competition. To that end, in the past twenty months, the SBA has provided small grants—usually in the form of paid participation fees and not exceeding $2000 per firm—to 57 firms to encourage their participation in eleven different, international sales promotion events.

In October of this year, at the request of the U.S. Foreign Commercial Officer in London, the SBA will help recruit 25 firms for an international "match-making" conference. The conference will try to match new-to-market, U.S. firms with United Kingdom importers, distributors, and agents. The SBA will pay the participation fee ($360) for up to 25 selected firms.

Also in October, at the invitation of the Osaka, Japan Chamber of Commerce, the SBA will organize a delegation of 15 small businesses to attend the "International Businessmen's Conference for Trade and Investment Opportunities—1984," which will provide the U.S. business participants an opportunity to meet pre-screened Japanese buyers in Osaka and Kyoto.

CONCLUSION

In summary then, these are some of the special initiatives that the SBA has taken to reach out to the small business community not only in the Dallas-Fort Worth area but also across the country. Our purpose is:

(1) To make them aware of export opportunities;

(2) To provide necessary, basic training and counseling on international trade;

(3) To get them started in doing market research;

(4) To provide incentives for them to participate in international trade shows and trade missions; and,

(5) To guarantee additional lines of credit for them so that they can meet their increased working capital needs to produce for export markets.

I would welcome this committee's comments on how any of these programs can be refined or how new programs can be developed, within the authority of our enabling legislation. We are not nor can we be the sole provider of export assistance to small business. Our role is to ensure small business access to the tools of international trade by being a coordinator, a communicator.

Federal Government and business must work together to find ways for American companies to compete with foreign industries in the international market. The opportunities are there for greater participation for small business in the international trade arena. We must all work together to ensure that small businesses will be successful as they look increasingly to overseas markets for expanding sales.

Mr. SKELTON. Well, the fact, Mr. Sanders, that you made a special effort to be with us in Dallas, TX, today, tells us that this is high on your priority list. I know all of us appreciate your doing so. Mr. Vandergriff.

Mr. VANDERGRIFF. Yes; I certainly agree with you, Mr. Chairman. It's an honor to have you here, Mr. Sanders. It's come to be typical of your agency to be so responsive and so sensitive to the real needs in the small business community.

I can't overlook the opportunity to commend you for some of these programs that you have highlighted already. The program last fall, the export awareness campaign—excellent—the new service soon to be available, and all of your various offices providing information to prospective exporters—outstanding.

So, we really are appreciative of your interest in this specific matter.

I wonder if you would comment, in fact, you did to some extent in your statement a moment ago, on the matter that was touched upon in earlier testimony today, it had to do with one of our witnesses saying it would be so helpful if he could be assured that expert source within the agency in terms of exporting, that is, being available.

He wished that one person could be designated for that responsibility. You mentioned the fact that you were having to have people double up in terms of their expertise and that this infers to me that possibly the gentleman who spoke earlier might have had a point. He spoke that he did not get perhaps as immediate service as would have been helpful to him.

What are the prospects here? Do you see any potential of relief in this regard where we might have a person designated for just this element alone?

Mr. SANDERS. Well, Congressman, I really don't believe that we could support that kind of approach because, I think, there may be better ways to accomplish it.

First of all, of course, the SBA is kind of a lean agency in that we may have one office in the State or we may have several. It's not untypical that an office will include 20 to 30 people to service

an entire State and they maintain all our programs, supervising lending in our guaranteed lending program, direct lending, the disaster program, servicing of the portfolios.

Then, we have the procurement activities, the minority small-business-development activities, the management-assistance outreach, the SBDC's, the SBI's. With women's business ownership, the veterans affairs, and other specialties like that, people do have to double up.

But, they can adjust to most of those situations. If we were to specialize, put a specialist in each office throughout the country that was trained in international trade, first of all, we would find it a little difficult recruiting the kind of people that we need. We've had some difficulty in the past locating just the regional international trade officers.

So, I think there's a good reason to say at the same time that we need an expert in all those other activities I have mentioned. As an alternative to that, I think that one of the things that would be most important is to see something like a Department of International Trade and Industry established in one form or another.

Of course, you had one proposal from the administration. Something like that could bring together this complex of agencies that the average small business person has to face when he comes to find out what kind of assistance his Government can give him.

Mr. SKELTON. Why can't the Commerce Department do it? That's the name of their game.

Mr. SANDERS. Well, I suppose that if they can incorporate some of the operations of the U.S. Trade Representative and bring in some other activities through the other agencies, such as ours, perhaps that—even if you don't call them a Department—they could consolidate these things.

Today, you have to go, it seems, to all the different agencies to find out what's available.

Mr. SKELTON. We heard that mentioned here at length earlier, that particular problem.

Mr. SANDERS. Well, to develop it a little further, I don't mean that that's the only solution. We feel that in the SBA we are facilitators, we are cooperators with the existing agencies. We don't want to duplicate the facilities that other agencies are already doing; we want to try and augment them, to identify them, and through this kind of complex organization of agencies, including States who are doing exports, who are anxious to develop exporting programs, we try to bring information to the small-business person and get the private sector also involved.

So, I guess that's my answer to you. I don't know that we can afford each time that we run into a specialty situation to go out and hire one person that has only that specialty.

Mr. VANDERGRIFF. Is there any potential in this scene for the small business development center? I'm very excited about that concept. I am so gratified by the fast start we've seen with the new small business development center at the University of Texas at Arlington. Of course, it's hightech.

Mr. SANDERS. Right.

Mr. VANDERGRIFF. But, is there some new role they might play throughout the country?

Mr. SANDERS. Absolutely, yes. I think that the SBDC's can play a major role in developing some of these specialties. Excuse me. As I mentioned, the University of Georgia has made a real specialty in their Small Business Development Center out of international trade, and they've come up with this computerized system of locating markets, and evaluating them, and grading them. That's a very hopeful beginning of the experiment.

My whole approach to the SBDC's is that, if they don't reach out past the normal kind of hidebound business administration approach to things, that they probably won't continue to receive the underwriting that the Members of Congress have given them so far.

If they don't do a better job of penetrating those areas of special needs in this country in the 1980's, international trade, women's business ownership, minority business development, if they can't reach out and become effective translators of those kinds of things, then I don't think they probably will continue.

That's the very area of opportunity, I think. International trade is a prime example of what some of the SBDC's can accomplish.

Mr. VANDERGRIFF. In this new dimension of advice you're going to give to the prospective exporters, were you able to identify the best markets for them, worldwide?

Mr. SANDERS. Well, Commerce has a system of market analysis. The University of Georgia has developed another system, an alternate system, that uses data that comes from the United Nations on market evaluation. They give dollar figures and rank the countries that are most likely to receive these products or use them, and I think it's an interesting experiment.

I would watch it carefully to see that we're not in any way duplicating what Commerce is doing. But maybe we have— maybe in this system there is something that we can meld together with Commerce. Maybe the system can work together or dovetail someway.

It's really kind of in its infancy. But, I think it's important that we continue to develop it because we may develop some data that Commerce will find is interesting and a breakthrough for them.

Mr. VANDERGRIFF. Is there any specific action that you'd recommend to those of us in Congress to take to assist SBA in aiding small businesses who wish to export?

Mr. SANDERS. Well, I think that we, first of all, have to realize that we have to kind of reeducate all of us in the small business sector. It's going to take time. I speak now of someone who came from the private sector.

As you know, the small- to medium-sized business person in America is not used to dealing in global markets, and it's going to take a while for him, and his bankers, and his financiers and his investment bankers, the people who are involved in equity formation for small businesses, to become aware of the possibilities and some of the problems, and to develop the mechanisms.

I have been a little disappointed that we haven't seen more export trading companies come aboard that have specialized or will specialize in small and medium-sized businesses. I think maybe tax incentives are always the best way to get that underway.

My own advisory committee, has suggested that the first thing we could do is to exempt the first $250,000 of revenues in successful exporting for the small business person from taxation. And, rather than try to restructure the companies, although I recognize we've got some problems with, of course, DISC and conflicts with the GATT Agreement, and that has to be corrected, but, nonetheless, the simpler we make it for the small business person, the more successful he's going to be.

If it's too complicated, he's not going to begin. I do believe that if we get more real mercantile bankers or export trading companies that take a capital position, a principle's position in receiving title to the goods, and then go out and sell it, then we'll find it will begin to stimulate faster exports by small business.

They will then have eliminated the risk for the beginning small business exporter. If he can sell someone a firm deal and they take care of the problems and marketing, and he gets an average profit on it, then I think we'll see some stimulation.

Mr. VANDERGRIFF. Are you aware of Congressman Nowak's proposed legislation?

Mr. SANDERS. I'm aware of it.

Mr. VANDERGRIFF. We talked about it earlier this morning.

Mr. SANDERS. I'm no student of it, but I know of it.

Mr. VANDERGRIFF. I was wondering about your support of it, or do you have a position, as yet, to comment on?

Mr. SANDERS. Well, just in general, Congressman. The legislation deals with a problem that has been created, of course, by the conflict in GATT and DISC. I'm pleased to see that there has been special consideration for the small AITC's in his bill.

I think the reaction of most of the people that contemplate this from the private sector is that they would hope that there is a simpler way to do this rather than to have to create a new corporation, a new business structure, with all the attendant fees from lawyers and accountants.

Perhaps there is no other way to do this and still be consistent with the GATT agreement. So, I haven't reached a conclusion about that part.

Mr. VANDERGRIFF. All right. Thank you very much. Thank you, Mr. Chairman.

Mr. SKELTON. Mr. Stenholm?

Mr. STENHOLM. Mr. Sanders, earlier today, we had one of our witnesses, who is with an export trading company, make a suggestion to the committee that there is a need for more direct lending, either from Export-Import or possibly from SBA.

I know that during this administration, you have recommended, and for the most part I've been in agreement, moving away from direct lending to guaranteed lending.

Have you given any thought in the area of exports and with the difficulties we seem to be having in getting export trading companies started from a small business perspective, as to whether or not there is, in fact, better method than direct lending for starters?

Mr. SANDERS. Mr. Stenholm, I really believe that that continues to be the way to go. I don't believe that direct lending will solve anything in the long run. I don't believe, first of all, that we could find the experts to put in our own agency, and to just find experts

in international finance lending would truly be a waste of resources because we don't have that kind of a volume. We'd have to put one person in Washington of course, and funnel it into them and get back to that long pipeline in Washington that's so infuriating to the average business person, so bureaucratic.

I think that the thing we've got to do is turn on this great engine of finance and investment that belongs in the private sector. The expertise is there. It is better to stimulate 100 bankers to get involved in international trade than to try and train one Federal employee in how to make a loan in international trade.

You've got 100 times more power in the private sector. That's my point.

Mr. SKELTON. There was testimony awhile ago that the Texas banks don't seem to become aware of export potential. Is this true?

Mr. SANDERS. Well, of course, as I read the papers, the Texas banks are experts in energy finance, and perhaps now that they look around, they may decide that in small business and export. There may be an appealing retrenchment.

I think it would be. I think bankers have a lot to learn, and that isn't to say that those of us in the engineering and insurance business didn't have a lot to learn, too. But, I think we're approaching a whole new age and see change in things. I hear these complaints. Gee, my banker doesn't know anything about this program. Well, I say, go down and tell your banker about this program or have him call us.

We have a long way to go in making people aware of this. I think the average small banker simply shies away from an international deal, if he's never done one. But, maybe we can turn him over to a correspondent bank that has an expert and give him a percentage of the income.

Mr. SKELTON. Thank you for letting me interrupt you.

Mr. STENHOLM. I fully agree that we need to give a lot more thought in that direction because apparently thus far we're not getting the interest, and I think one likely explanation of that is that it's still a rather young concept and young idea, particularly from a small business perspective. And, we also run into just a few problems with the high interest rate and strong dollar right now, which makes it almost impossible for anybody to compete today.

So, we're operating under a handicap today. In regard to the export financing seminars that your SBA is now involved in and in which you are attempting to educate and to provide assistance, what emphasis are you putting on prospective exporters regarding language and language requirements? With reference to the question of an earlier witness, I think most of us who have done any studying at all in this area realize that one of the things we have to learn as Americans is to attempt to meet others, particularly South America and Mexico, on their ground, not force them to come to our ground.

And, I'm wondering at this point, is SBA emphasizing the need of communicating in the language of the people with whom we're trying to sell, or is this something that others are only talking about?

Mr. SANDERS. Well, I don't think I can tell you, Congressman, the extent to which that is done at each seminar that we have. But I

think that has always gone along with every kind of seminar, the recognition that the language, the customs—the whole ball game, has to be recognized as different in another country. Unless you understand it you can't make very much headway or you'd better find somebody to deal with that does understand it or live there.

As you know, we have an international trade specialist in each one of the 10 regions of SBA, and that's where it ends as far as specialization goes. The one in this region is Carlos de la Vega, who is fluent in Spanish. Carlos spent most of his younger life in Cuba and then came to America to establish his own career.

The people that we have dealt with in some of our offices that work with the SBA in Florida and the other areas are bilingual. They understand the problems and can relate. That is the kind of information we do put out.

I might tell you that when I was in Japan 1 year ago to attend an international small business congress, the varied ways of doing business was brought home forcefully to me by the commercial people of our Embassy in Japan who were bilingual—fluent in Japanese. They pointed out the average American comes in by plane one day, goes to the Embassy, meets with the commercial officer, and says I want to make a deal. If he hasn't made a deal within about 4 or 5 days, he goes back disappointed. The officers keep trying to say to him: Look, you have to wait; Japan does it differently. You have to be patient. You have to come back several times. You have to deal in their way."

So, we have a long way to go. I think we try to stress that, Mr. Stenholm, but I think also, for most small business people, they are not going to gain that kind of fluency. They are not going to invest that kind of time to go there themselves.

I think they have to deal with an intermediary who will do that for them, who is aware of those customs and language.

Mr. STENHOLM. Which prompts my last question: I will not get the name of the organization correct, but will get the concept correct.

I had reason a couple of years ago to become a little knowledgeable about foreign consultants in the field of agriculture, particularly with an organization called the American Society of Agricultural Consultants. What they do is attempt to go into foreign countries, and advise these countries on building agriculture. This group has been very successful for a period of time in the field of poultry.

They were pointing out some lost golden opportunities for America in the exporting field, today, because we have not put enough emphasis on people. Their point, obviously from a self-interest standpoint, is that if you would put a little more emphasis on those of us who have the capability of going into a country and training that country and teaching them what we have, then there is a golden opportunity to sell. They made me aware of some national trade publications that showed where the Germans were doing a beautiful job now of completely taking over the poultry equipment, the——

Mr. SANDERS. Mass production.

Mr. STENHOLM. Mass production and the sales, and they had done it by sending in the consultant first, teaching them, and, of course, once you get your person in, in this case the Germans, the

Japanese are also very competitive in that field, then they will recommend certain firms back in their country to purchase from.

And, I'm wondering, are you aware of any effort using this perspective as a possible way to get our foot in the door?

Mr. SANDERS. No, I am not aware of any strategy like that with any particular agency—to develop that kind of presell, preindoctrination. If I were a manufacturer of equipment like that, it would certainly be a scheme that I would like to adopt. As we compete with our major trading competitors, the Germans, the Japanese, the French, who have been traders around the world for centuries they are not only bilingual but multilingual. We really are up against the major leagues.

And, when we go up with our schoolbook, our French II, and try to compete with them, it's not adequate. We've got a long way to go. We're behind the curve considerably. No question about it.

So, we've got to hire the people that have that ability. If I were going to invade a market, I wouldn't hesitate to hire a German or a Japanese to do that for me. That's the only way I could catch up. Hopefully, in another generation, we will have trained a whole generation of Americans that are going to be world traders as we once were. But it's going to take a long time.

As you point out, we have to lay the keel now even though the boat isn't ready to float yet because there is the hard dollar out there to sell against. There are a lot of other disadvantages right now. We have to prepare the ways, and it's going to take awhile. But I think, that we are making some progress.

Mr. STENHOLM. Mr. Chairman, I would request unanimous consent to revise and extend my remarks at this point in the record to fill in the blanks. The thought just occurred to me, talking about small business, agriculture consultant or another business, that a high-tech consultant is about as small a business as you can find.

Consider a one-man or one-woman operation starting out. This might be an area that we might want to pursue in conjunction with some others who are already actively involved and, in fact, have been asking for help from the Congress to get their foot in the door. This might be a way we could do it; plug in a little expertise and kill two birds with one stone.

Mr. SKELTON. Very good. Without objection.

Mr. STENHOLM. Thank you.

Mr. SKELTON. Thank you. I would like to direct your attention back to 1979, I introduced a bill known as the Small Business Export Improvement Act of 1979. This, of course, was before you came on board, part of which was enacted in the small business omnibus bill late that session, that, among other things, it provided for sharing between the Federal agencies information on export opportunities, made information available to small business concerns. It made information available to foreign governments on American small business products that we had available, provided more information for small businesses through the SBA offices, including language translations, and part of this was picked up, the major part of it was not passed.

How would you improve on something like that? Were you to write a bill today, Mr. Sanders, entitled "Small Business Export Improvement Act of 1984," what would you do?

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Mr. SANDERS. That's pretty challenging.

Mr. SKELTON. That's the bottom line today, sir. That's the bottom line.

Mr. SANDERS. We did have an interesting experiment along that line in the Island of Guam. We invested some money to train the innkeepers and restaurateurs and hotelkeepers in Guam in the Japanese language, so they could attract more tourism to Guam. They were getting a lot of tours from Japan, but many of the local people were not fluent in Japanese.

We felt that their business' incomes would rise if they could become more fluent and respond to some of the Japanese customs. That is a beginning. That was last year.

If it's to be part of the Small Business Act and the program——

Mr. SKELTON. You have the pen, you're going to write it, and Congress is going to enact it, exactly what you want, what would you do?

Mr. SANDERS. What I'd like to do is go away for about 3 days and write everything down and then give it back to you. If you will let me write that bill, I'll put more than 3 days in it, I'll put the next 3 months in it.

But, I think that a lot of the things that we have talked about here should be consolidated. I'm always concerned that whatever we do in the Small Business Administration somehow does not conflict or repeat what's being attempted by some other Federal agency or duplicate what's being done by some State agency.

Mr. SKELTON. That was part of my bill.

Mr. SANDERS. Yes.

Mr. SKELTON. To draw them together so you'd have a one-stop situation.

Mr. SANDERS. Where would you make the one stop? The SBA office?

Mr. SKELTON. Yes, sir. You're it. Think about it, think about it.

Mr. SANDERS. Let me think about it without going on the record for right now.

Mr. SKELTON. All right. You know, I think you hit it on the head awhile ago when you used the term "awareness." I think the term "minds" may be a little bit better. I was talking with the gentleman who will testify a little bit later, and he said, you know, if you were to go into Amsterdam, Holland, pick out an average home and go in and wake up the head of the household, he said, what are you thinking about right now, he would say exports.

If you were to do this in Japan, they'd probably wake up and say exports. If you were to do it in Texas or Missouri, you might not get that answer. You know, I am concerned. That's an overstatement or oversimplification, but we don't have the minds that we need to export.

The country of Japan has very little in the way of natural resources, very little. We all know that they are doing a bangup job in the area of exporting, in many areas, not just small businesses.

So, it is an awareness that we must create within our country, and I think you hit it on the head.

The last series of questions dealing with the export financing and the SBA. You say in the fiscal year 1983, you made 47 loans total-

ing $12.8 million nationwide, small firms that export. Of these, 22 are export-revolving lines of credit loans, totaling $6.3 million.

Now, comparing that with all of your other loans, is that not less than 1 percent?

Mr. SANDERS. That's correct.

Mr. SKELTON. Well, why is this? Is the demand just not there?

Mr. SANDERS. Well, I think——

Mr. SKELTON. Are you turning them down? Are you getting the requests for these loans? This is pitifully small.

Mr. SANDERS. Oh, yes.

Mr. SKELTON. Terribly small.

Mr. SANDERS. It is. And, I think it's all part of what we're saying, Mr. Chairman. It's new. We don't have bankers that understand it or want to get involved with it. We have a long way to go to educate them. I must admit, it's a little shock treatment for our own people in finance and investment that do the approval of the guaranteed lending or direct lending for export.

It's a new ballgame. They are not comfortable with it. We're trying to make them comfortable. We're trying to train them, but there is this to be said, I can recall not long ago that one of my international trade specialists came to me and he said, "I've got the worst news for you." I said, "What is it?" He said, "Well, I've been working on this revolving line of credit guarantee for several months. I found the firm. I found the bank. I got it together. I go to make a deal and you know what happened?" I said, "No." He said, "They made their deal without us. They didn't have our guarantee." I said, "That's marvelous."

Well, he said, "We lost business." I said, "No, you didn't. The important thing is the small business person made a deal." I think that there is a lot of spinoff that isn't recorded in these numbers. Activities go on that aren't guaranteed loans, but loans are made or deals are made. So, there is some activity going on all the time. But this is pitifully small compared to our general business.

Mr. SKELTON. The question is, you know, if we don't do it, if we don't make them aware of the vast potential of the market out there, who is going to do it? And that's a challange for you and for your operation.

Mr. Vandergriff, any further questions?

Mr. VANDERGRIFF. No further questions—just a hurried comment. Mr. Sanders, you're obviously a great believer in outreach and that's one of the reasons I'm a great believer in you.

Earlier today, Mr. Gibson, a representative of SCORE, talked about the advantages that might be gained by SBA training SCORE representatives in some of the specifics of the export assistance programs.

I wish you would consider this. Probably some of your local people are here and have heard those comments, and the suggestion seems meritorious to me and it might be a way for you to accomplish some broadening of your informational programs at no additional expense.

Mr. SANDERS. I think that's an excellent suggestion; yes.

Mr. VANDERGRIFF. Thank you, Mr. Chairman.

Mr. SKELTON. Mr. Stenholm?

Mr. STENHOLM. No further questions.

Mr. SKELTON. Thank you. I can't tell you how much we appreciate your coming down here, Mr. Sanders. You helped make this hearing all the more meaningful because you do place such a high priority on export problems and on the business potential that goes along with it.

Thank you so much.

Mr. SANDERS. Well, Mr. Chairman, I would like to take this occasion to thank you and the Congressmen for the support you've given the small business community on the committee. Thank you very much, too.

Mr. SKELTON. Thank you.

[A short recess was taken.]

Mr. SKELTON. We will ask our next panel of advocates and private enterprise trade support groups to begin. We will follow the previous procedure, going from my left to right. I know you are aware of the time problem that we all have. I urge you to be brief. If you wish to submit your testimony in full and summarize, please do so.

Mr. Blake.

TESTIMONY OF WORTH M. BLAKE, PRESIDENT, NORTH TEXAS COMMISSION

Mr. BLAKE. Mr. Chairman, members of the committee, my name is Worth Blake, and I am president of North Texas Commission. Our mailing address is Box 610246, DFW Airport, TX. Our physical address is here in this building with offices on the second floor with our colleagues at the Dallas-Fort Worth Airport, headed up by executive director Ernest Dean.

We are your host today and we are very pleased to welcome you to our community. The North Texas Commission is well known to one of your committee members, Congressman Vandergriff. In a former life, he was a private citizen and businessman here in the Dallas-Fort Worth area. As a businessman, private citizen, and mayor of one of our municipalities, he served on the steering committee of the North Texas Commission when it was formed back in 1972.

So, he understands very well the nature of what we are about and for the benefit of you other two gentlemen and members of your committee, I express to you that the North Texas Commission is a regional marketing and promotional organization whose goal it is to increase job opportunities in the Dallas-Fort Worth area. We now have nine counties we are working with. We do this by working with our area chambers of commerce, the Dallas-Fort Worth Airport, and other organizations that are involved in the promotion of exports and of increased business opportunities in general.

We are a membership organization funded by about 640 private sector members and 20 municipalities. With that, we represent close to 2.8 million of the 3 million people that are in the Dallas-Fort Worth area right now. We say we represent them, but they are members of our organization one way or another. We have communication with those people.

We appreciate this opportunity to share with you the thoughts of this organization. I have two particular points I would like to leave with you.

One of the North Texas Commission's marketing responsibilities is to serve as the central coordinator for the Dallas-Fort Worth Airport Foreign Trade Zone. In that, we work cooperatively with the Dallas-Fort Worth Airport Board, cities, chambers of commerce, and the zone operators on a daily basis.

Although Zone 39 is located on DFW Airport property, the sixth busiest airport in the world, we have some major difficulties in marketing that zone. The major problem stems from a perceived threat of local taxes being placed on goods within the zone, and this is deterring new and expanding businesses from locating within our zone.

In June 1983, a bill protecting the Nation's 74 foreign trade zones was sent from the House to the Senate on a 368 to 43 House vote. This effort was led by Congressman Jim Wright and was competently assisted by Metroplex area Congressmen Martin Frost and Tom Vandergriff. We would like to draw attention to the House support for this bill and express our sincere appreciation to Congressman Vandergriff for his personal work on this bill.

However, that was 1 year ago and the Senate has not passed the bill on to the President. In the interim, we have received no new business prospects.

Mr. SKELTON. I might add that happens to a lot of very worthy bills.

Mr. BLAKE. We received many new business prospects regarding the zone in that interim, and we even had a major user who was ready to sign a lease contract, but he discovered that the tax issue was there, and had not been resolved. This user decided to forgo our zone.

Unfortunately, this is not an isolated case. With Texas being only one of two States where this tax issue is not clear, we feel the competition in other States has a decided advantage over our area. We appreciate being able to clear up this particular thing, and we would only ask that where you possibly can, you would urge your colleagues in the Senate to be attentive to helping us move that forward. It would certainly benefit our area. There seems to be no opposition; it just seems to be languishing there. It would be helpful if you could push that on through.

That seems to be one item that is deterring exports in this area.

The second item is, and I'm going to have to take a round about way for you to see how it applies to exports; first, I'm going to talk about imports.

Imports ultimately create exports. Let me just give you a quick example. In 1972, as I mentioned earlier when the Commission was formed, we had an inquiry from a Japanese firm that wanted to do some importing here. That firm came to two people in 1972. They have since increased their identity here until now they have a manufacturing operation. First, they did all their importing; all their products were shipped here from Japan. Now, they manufacture here, employ 125 people in this area, and are exporting from here on to South America. They'll bring in some imports, but using local products, matching it up, and sending it on forward.

So, imports do eventually have some impact upon creating exports. So, in that, if you would, I'll give you this point. We understand that the Reagan administration's concern with the national trade deficit is one that we need to be aware of.

In past years, the Dallas-Fort Worth region has been responsive to numerous congressional delegations expressing support for trade. We have worked with them on the establishment of U.S. customs district, supported the Wildlife Entry, et cetera. This is just background.

Right now, the real concern I'd like to tell you about, and of which you are aware is that within the U.S. customs system there is a move underway to regionalize or consolidate our many appraisal centers throughout the United States. Most direct regionalizations through the current proposal would eliminate the DFW customs appraisal center. In turn, this would be a giant step backward in developing our region as an international market center.

Regionalization is proposed to be done by reassignment of import specialists. Our research reveals that in 1983, the customs appraisal personnel at DFW processed over $75 million in import duties. It did this with only 12 customs agents on the team. It has since lost two of those. Further on, this consolidated approach may be practical, however in reality, it's really not a workable plan.

Let me just toss a few statistics that might be more than just rhetoric. Two other areas are looking at us and they are reporting $55 million in Gonzalez, AZ, with only eight import specialists; North Dakota has $14 million. We here in the Dallas-Fort Worth area are having a rate of $93 million in 1984, with 10 specialists.

We appreciate your attention to helping us to bring that to customs' attention in helping us.

Thank you.

[Mr. Blake's prepared statement follows:]

Prepared Statement of Worth M. Blake, President, North Texas Commission

Good morning, I am Worth Blake President of the North Texas Commission. We are an agency comprised of membership from the private and public sector. Our membership is funded 75% by private industry and 25% by municipalities. Our mission is to market a 9 county region to bring about a spirit of regional cooperation and create jobs for the 9 county Metroplex area. We appreciate the opportunity to share our thoughts with you concerning exporting and small business development.

One of the North Texas Commission's marketing responsibilities is to serve as the central coordinator in marketing the Foreign Trade Zone. We work cooperatively with the DFW Airport Board, cities, chambers of commerce and the zone operators on a daily basis. Although Zone #34 is located on DFW Airport property, the sixth busiest airport in the world, we have some major difficulties in marketing our zone. The major problem stems from a perceived threat of local taxes on goods within the zone which is deterring new and expanding businesses from locating within the zone. In June of 1983 a bill protecting the nation's 74 Foreign Trade Zones was sent to the Senate on a 368 to 43 House vote. This effort was lead by Congressman Jim Wright and was competently assisted by Metroplex area Congressmen Martin Frost and Tom Vandergriff. We would like to draw attention to the House support for this bill and express our appreciation to Congressman Vandergriff for his work on the bill. However, that was a year ago and the Senate has not passed the bill onto the President. We have received many new business prospects regarding the zone and even had a major user in line to sign a contract. When it was discovered that this apparent

tax issue had not been resolved, the prospective user decided to forego our zone. This case is not an isolated one. With Texas being only one of two states where this tax issue is not clear, we feel the competition has an advantage on us. Clearing up the tax issue will certainly allow Texas and DFW to promote our zones competitively. We understand you on this House committee have no control over Senate matters, however we would like to enlist your support expedite Senate action on this bill as soon as possible. Our contacts tell us the bill is out of Senate Committee and waiting to be voted on by the Senate leadership. Your assistance with this problem will be of great significance to our area.

The other area I would like to address briefly concerns the National Trade Deficit. We understand the Administration's concern with this matter and this meeting today bears witness to the Administration's involvement. In past years DFW has been responsive to numerous congressional delegations requesting our support for increased International Trade. We have been very cooperative and have even gone to great lengths to support those efforts by obtaining a Customs Appraisal District, Fish & Wildlife Port of Entry, and Immigration and Naturalization Center; all agencies that support our efforts to increase international trade. By our past involvement you can see that the DFW Region has been most interested in helping lower the National Trade Deficit as well as promote our area as an international marketplace. I relate this background information only to assure you that having these agencies located in the Dallas Fort Worth area is very critical to our region in order to do business internationally. Yet today we are in jeopardy of losing one of our major strengths; our Customs Appraisal District.

I'm confident you are aware that today within the U.S. Customs System, there is a movement underway to regionalize many appraisal districts throughout the United States. Most directly, regionalization through the current proposal would eliminate DFW's Customs Appraisal District and in turn would be a giant step backward in developing our region as an international market center. Regionalization as proposed, would be done by reassignment of import specialists. Our research reveals

that in 1983 the Customs Appraisal personnel at DFW processed $75 Million in import duty. They did this with only 12 customs appraisers on the customs team. They have since lost 2 of that team. Our research finds that on paper this consolidated approach may look applicable but in reality it simply is not a workable plan if our area is to remain a strong international community.

Under the current proposal, consolidation of Dallas to Houston, would take place, severely handicapping potential and present DFW importers. Last year U.S. Customs applied for increased appropriations on the principle that it needed more import specialists. They requested money for 150 more import specialists knowing full well they intended to reduce the number of import specialists. The appropriations committee might find it rather revealing to inquire of customs how many additional import specialists were hired this fiscal year. We are requesting your committee to investigate this consolidation plan and assist us in keeping our appraisement center at DFW and restoring it to full strength. In turn, allowing us to help lower the international trade deficit.

We will be willing to work cooperatively with your committee or through appropriate channels to remain a strong, new center for international trade. We also have two staff members who would be willing to brief appropriate parties with respect to our additional needs and recommendations.

Thank you for your time and assistance.

Mr. SKELTON. Thank you, Mr. Blake. Mr. Whitson.

TESTIMONY OF RAY WHITSON, CHAIRMAN, NORTH TEXAS DISTRICT EXPORT COUNCIL

Mr. WHITSON. Thank you, Mr. Chairman.

Mr. Chairman, Congressmen, I am Ray Whitson of D.A. Whitson Associates, 4448 Willow Lane, Dallas TX 75234.

I am addressing this hearing as the chairman of the district—North Texas District Export Council. I would request that my written testimony be entered into the record.

Mr. SKELTON. Without objection.

Mr. WHITSON. As chairman of the North Texas District Export Council (DEC), I welcome this opportunity to participate in the small business subcommittee congressional field hearing.

My testimony will be in three parts. First, I will present the charter of the North Texas DEC and our relationship with the other 50 DEC's in the United States. We have a combined membership of 1,500 or 1,800 members.

The DEC's represent one of the most effective ways to actually assist small business in exporting for our members are local, available, and have been there, both as large and small businesses.

This includes members of various trade organizations and of various branches of the Federal and State Governments. In fact, there are seven members present today at this hearing and five are testifying. Mr. Martinez, Mr. Blake, myself, Mr. Linden, and Mr. Carmon Stiles. We also have present Mr. Frank Foster from the Department of Commerce District Office in Dallas, and Mr. Lee Morris. I would just like to recognize Mr. Morris seated behind me, from Morris International, Fort Worth. He is a former chief counsel, Committee on Banking and Currency, that had jurisdiction over the small business legislation. He prepared the contracts on the SBA training course for small business. His wife is Dorothy Biard, the legislative assistant to Majority Leader Jim Wright.

It is this kind of expertise that we have here in our DEC that can be singled out to concentrate on assisting small- to medium-sized businesses to export. I'd just like to bring that to your attention.

Second, I will enumerate a number of the activities and services that we are doing to assist the small business exporter, and, third, I'd like to briefly discuss the high technology export licensing dilemma facing all Americans. It is not going away, it cannot go away.

The North Texas District Export Council—referred to as the DEC, is an organization of management leadership from companies and organizations whose international business knowledge and experience provide a source of professional advice, assistance and program development to firms and persons seeking to develop or expand their export sales and operations.

We serve for 2 years at the pleasure of the Secretary of Commerce, Malcolm Baldrige, on a voluntary basis without pay. We had our first national meeting ever for the DEC membership in Washington last week, and we were very pleased with the cooperation that we received. Certainly, Congressman Vandergriff as well

as other Members of Congress working till 1 in the morning, and then being at our DEC breakfast at 7 o'clock, was most enlightening and encouraging to us.

We have recommendations from the six workshops of the national DEC conference that are being prepared and will be provided to you as a part of my testimony. These are specific recommendations from small business exporters to assist in increasing exports from other small businesses.

Our DEC's are linked together in a network, and we work on various specific projects in each one of our DEC's. We will become a more powerful force for exports, I believe, in the future.

I would urge you as members of the Small Business Committee of the U.S. House of Representatives to examine and to support the United States and Foreign Commercial Service, International Trade Administration of the U.S. Department of Commerce. The ITA in the past few years has really begun to become a more powerful and effective organization in encouraging and promoting exports, particularly from small business. Without an effective ITA, there is no way for small businesses to be effective exporters in my judgment.

I speak from experience having formed a company 15 years ago, after I was 40 years old, never been overseas in my life, never intended to go overseas, and woke up with the oil companies as customers and had to go international. I walked into the local Department of Commerce in Dallas and said I need some forms to fill out. They assisted me in the basics and my company has grown from that point in time from zero to over $15 million in sales, to over 125 people, and we are in over 70 countries. This was the company, DATOTEX, Inc.

During this 15-year period of time, DATOTEX has experienced the impact of some of the disincentives of exporting. In 1976, when we were a $2-million-a-year company, we lost a $25 million multiyear job in Chile to some of the legislation that we really didn't know about until after it was enacted.

I'm not arguing whether the legislation should or should not have been enacted. The point is I really wasn't aware of it. Now, legislation impacting exports is one of my expertise, and I try to keep up with those provisions that do impact us and to pass this along to everyone else. You have been listening to several in the first panel here that are being impacted by certain legislation today and their business will suffer tremendously because of it.

First, what we in the DEC really do is we support the Dallas district export office [ITA]. Mr. Carmon Stiles will talk about that, so I will not go further. We do personal counseling and presentations on exporting. We prepare and distribute the export-import information manual. We work with Export-Import Bank. We developed the U.S. small business development organizations Third World innovative strategy to assist small businesses in exporting. This strategy resulted in the formation of the Southwest International Trade and Development Network [SITDN]. This network provides a bridge for small business in this country to other small businesses in the other countries. It combines development and trade.

We are doing this to see if we can come up with a network that will assist all businesses in exports. We're not duplicating any of

the other trade organizations in this area. SITDN provides the small business exporter with one place to come to get his information or guidance to the appropriate organization.

We plan to replicate SITDN throughout the United States. In addition, as part of this, we support the Lubbock, TX, DEC member in the formation of the West Texas International Trade Forum. Mr. Max Tarbox of Lubbock came to us and said as a DEC member, here's what we need in west Texas. Our DEC is supporting this Lubbock effort and the Department of Commerce has been outstanding in supporting it also.

The West Texas International Trade Forum is needed in Lubbock, TX, and the west Texas region to get things rolling. We have made presentations at the Joint Business Department of Commerce hearings on the Export Administration Act of 1979 [EAA] in Dallas on November 30, 1982. We made specific recommendations to create a favorable environment in international trade for small- and medium-sized businesses.

This leads to the third point in our presentation, the dilemma that faces all of us in high technology exporting as Americans.

Small businesses lead in innovations and will face this licensing dilemma unknowingly and unprepared in most cases. Controlling the exporting of high technology through the licensing process presents a dilemma for all Americans as we seek a balance between our economic well-being through encouraging exports and our military well-being through restricting exports of high technology. Our national security is dependent on both.

To show the dilemma, we are asking what the Department of Commerce might do. The EAA law under which they are allowed to grant export licenses expired. EAA was due to expire September 30, 1983, but was extended to March 30 of this year. The House decided not to extend that bill any longer. The authorities of the EAA were extended under the International Emergency Powers Act [IEEPA] by the President.

The Senate has one view of EAA and the House has another view. It's in committee now. We don't know when it will come out.

[Mr. Whitson's prepared statement follows:]

PREPARED STATEMENT OF RAY WHITSON, CHAIRMAN, NORTH TEXAS DISTRICT EXPORT COUNCIL

As Chairman of the North Texas District Export Council (DEC), I welcome this opportunity to participate in this Small Business Committee Congressional Field Hearing on Export Opportunities: An Untapped Resource for Small Business. There are two reasons that this Field Hearing is most appropriate. First, the United States is facing an ever increasing trade deficit that is estimated to reach $130,000,000,000 in 1984 resulting in 3,250,000 U.S. jobs lost. In 1990, the trade deficit is estimated to reach$174,000,000,000 resulting in 4,350,000 jobs lost.

Jobs in the U.S. are created by small business. According to John Naisbitt in his best selling book Megatrends during a seven-year period ending in 1976 we added 9,000,000 new workers. The Fortune 1000 largest industrial firms and the federal government contributed zero of the new jobs. Small business contributed 6,000,000 of the new jobs with the state and local governments contributing the remaining 3,000,000 new jobs. In 1981 and 1982, according to First Monday, small business created 2,600,000 new jobs to offset the 1,600,000 jobs lost by big business for a net gain of 984,000 new jobs.

The question before us is not Can and/or should small business be involved in exports?, but rather How can we get small business involved in exports?

My testimony will be in three parts. First, I will present the charter of the North Texas DEC and our relationship with the other 50 DEC's having a combined membership of 1800 members and with the President's Export Council. The DEC's represent one of the most effective ways to actually assist small business in exporting for our members are local, available and have been there, both as small and large business.

Second, I will enumerate a number of our activities, services, and programs that assist the small business exporter. Reference material will be provided for additional information.

Third, I will briefly discuss the high technology export licensing dilemma facing all Americans. The current status of and the controversies surrounding the Export Administration Act of 1979 will form the basis for discussion, including the problems facing the small business exporters and recommendations for improvements.

The North Texas District Export Council, hereafter referred to as the District Export Council (DEC), is an organization

of management leadership from companies and organizations whose international business knowledge and experience provide a source of professional advice, assistance, and program development to firms and persons seeking to develop or expand their export sales and operations. Members of the DEC serve without compensation for a two year term at the invitation of the Secretary of Commerce of the United States. The DEC objective is to establish effective liaison between the U.S. Government and the business community and to stimulate maximum business participation in the national export effort.

The 51 DEC's met for their first ever all member national conference, DEC '84, in Washington, D.C. June 27-28, 1984. A total of 350 of our 1800 member organization attended. Presently, the DEC's have no formal relationahip with each other, but rather a network arrangement, and a member of the President's Export Council is assigned to provide liaison with the DEC's. One of the recommendations coming from our national meeting is to improve our effectiveness through better and coordinated relationships among the DEC's and with the President's Export Council.

The recommendations from the six workshops of the national DEC '84 conference are being prepared and will be provided to you as a part of my testimony. There are specific recommendations from small business exporters to assist in increasing exports from small business.

Also, I would urge you as members of the Small Business Committee of the U.S. House of Representatives to examine and to support the U.S. and Foreign Commercial Service, International Trade Administration (ITA), U. S. Department of Commerce. The ITA in the past few years has really begun to become a powerful and effective organization in encouraging and promoting exports, particularly from small business. Without an effective ITA there is no way for small businesses to be effective exporters in my judgment.

What are some of the activities, services, and programs of the North Texas DEC applicable to small busines exporters?

First, we support the Dallas District Office, ITA, U.S. Department of Commerce. These activities will be presented later in these hearings by Carmon Stiles, Regional Director, U.S. Department of Commerce.

Specific major activities, services, and programs of the North Texas DEC applicable to small business exporters are:

1. Personal counseling by a knowledgeable DEC member with a small business exporter referred to the DEC

by the District ITA office.

2. Presentations on exporting at seminars, colleges, local civic organizations, etc. by DEC members.

3. Liaison with federal, state, and local governments as well as other trade associations.

4. Preparation and distribution of the "EXPORT INFORMATION MANUAL".

5. Proposals, meetings, and hearings regarding EXPORT-IMPORT BANK guarantee financing for small business.

6. Development of an innovative strategy, U.S. Small Business - Private Voluntary Organization - Third World Strategy, to assist small businesses in exporting. This strategy resulted in the formation of the Southwest International Trade & Development Network.

7. Co-sponsor with Dresser Industries, Inc. of The Fowler-McCracken Regional Leadership Conference in Dallas, on April 22-23, 1983 with emphasis on small business exports. Supporting information is attached.

8. Support of a Lubbock, Texas DEC member in the formation of the West Texas International Trade Forum.

9. Participation in all six workshops of the National DEC '84 conference in Washington, June 27-28, 1984 by over 1/3 of our 35 voluntary DEC members.

10. Presentation at the Joint Business-Department of Commerce Hearings on the Export Administration Act of 1979 in Dallas on November 30, 1982. Specific recommendations attached were made to create a favorable environment in international trade for small and medium sized businesses.

This leads to the third part of my presentation concerning the high technology export licensing dilemma facing all Americans. Small businesses lead in innovations and will face this licensing dilemma unknowingly and unprepared in most cases.

Controlling the exporting of high technology through the licensing process presents a dilemma for all Americans as we seek a balance between our economic well-being through encouraging exports and our military well-being through restricting exports of high technology information, products, and services. Our national security is dependent on both

our economic well-being and our military well-being.

The licensing for the majority of our merchandise exports is authorized and controlled by the Export Administration Act of 1979 as amended by the Export Administration Act of 1981. The President by provisions of this Act delegates to the Secretary of Commerce all functions conferred upon the President.

No where is the export licensing dilemma more clearly illustrated than in the legislative considerations of the Export Administration Act due to expire on September 30, 1983. Today after a series of extensions passed by Congress, the Act expired on March 30, 1984. Then the President invoked emergency powers to continue the export licensing process until a new Act can be passed.

An in-depth look into this export licensing dilemma is contained in the attached paper "HIGH-TECHNOLOGY EXPORT LICENSING DILEMMA" that I will present at Midcon/84.

Congressman Vandergriff, this dilemma will directly impact the University of Texas at Arlington and its plans for the formation of the Artificial Intelligence and Robotics Research Institute--a consortium of local and national high technology companies who will work with university engineering researchers and share the results. See the attached Dallas Times Herald, February 4, 1984, article entitled: "Robotics research center proposed."

The attached ELECTRONIC NEWS article entitled "Genesis of Trouble in Project Exodus" clearly points out the dilemma from the enforcement standpoint.

The article states that the U.S. Customs Service has found an expedient way to come up with its own classified Military Critical Technologies list by awarding a sole-source contract to Aerospace Corporation, a Federal Contract Research Center to compile the list. The Department of Defense uses Eagle Research Corporation.

The General Accounting Office reports, "Although Customs recognizes that other federal agencies are involved in work in this area and have some of the technical skills necessary for this project, Customs contends that an integrated group effort would be extremely difficult due to different statutory authorization and the problems that would arise from delegating responsibilities between agencies and diluting channels of authority."

The Customs critical list apparently will be secret--since the agency told GAO it didn't want even Eagle Research to be involved as the support contractor for fear "U.S. industry would gain any insight into Customs' methods of export control."

The exporter faces a dilemma with a separate classified list kept from other agencies by Customs. Who issues the export license--Commerce or State Department? If you have an approved license and the shipment is seized by Customs, what is your recourse? Customs does not distinguish between a deliberate violation of the export licensing laws and regulations and an inadvertent violation. The defense is costly in time, talent, and money and the penalities most harsh.

When one recommends small business export, you must realize the precarious position in which you place them. Ignorance of the law is no excuse and small businesses do not have the resources to expend to understand all the disincentives facing them. If you as Representatives are serious about encouraging U.S. small businesses to export, you must re-examine the disincentives to exporting and provide relief to the small business exporter. Specific recommendations to this topic were made at the National DEC '84 meeting and will be provided to you as soon as they are published.

In summary, the NT DEC as well as the other 50 DEC's is active in supporting and encouraging exporting by small business. Three major problem areas have been identified with solutions proposed that would create a favorable environment in international trade for U.S. small and medium size businesses. The three areas are:

1. Removal of export disincentives.

2. Resolve the export licensing dilemma.

3. Structure export financing so that small to medium size businesses, particularly those currently exporting, can utilize it.

On behalf of all the members of the NT DEC, I express my gratitude to you for your time and interest in conducting this hearing. Through such dialogue and cooperative efforts we continue to be the world's economic leader and to be strong vibrant international traders.

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Mr. SKELTON. Mr. Whitson, we will have to cut you off at this moment. We'll get back to you.

Mr. WHITSON. Sure.

Mr. SKELTON. Mr. Paul Sekin.

TESTIMONY OF PAUL F. SEKIN, DALLAS/FORT WORTH FOREIGN TRADE ZONE

Mr. SEKIN. Paul Sekin with the Dallas-Fort Worth Foreign Trade Zone, and I'll keep my testimony very brief, as most of you heard me this morning.

But, with the foreign trade zone, we have an excellent opportunity to promote both imports and exports. I'm going to echo some of the same concerns with which Mr. Blake discussed awhile ago.

Basically, the fact that we have this inventory tax problem which is hampering the growth of our foreign trade zone. We feel that once this tax issue is settled, that we will have the means to go out and market our zone properly and to compete with all the other 90 zones throughout the United States.

Also, I feel that the classification specialist moving to Houston could be extremely detrimental to the international trade in the Dallas-Fort Worth area. It would cause considerable delays and additional costs to importers and ultimately exporters in our area.

We ask that you assist in any way possible. Thank you.

[Mr. Sekin's prepared statement follows:]

Prepared Statement of Paul F. Sekin, Dallas-Fort Worth Foreign Trade Zone

The purpose of this written testimony is to describe the Dallas/Fort Worth Foreign Trade Zone and expound on its purpose, the impact it will have on our community, and the detrimental aspects to its development.

The Dallas/Fort Worth Foreign Trade Zone (FTZ) is a 250 acre site located on the Northeast corner of the D/FW Airport. It was established in 1978 as Foreign Trade Zone No. 39, and it became operational in March of 1981. The Dallas/Fort Worth Airport Board is the Grantee and Darrell J. Sekin & Co., Inc. serves as the Operator. There are presently eight facilities in the zone which total over 550,000 sq.ft. of office psace. The zone has approximately 30 tenants and 12 users. of which some users are located outside the zone. The Zone is situated between several major highways and it also has direct air and rail access. One of the major assets of this Zone is its flexibility; the capability to have zone and non-zone acitivty occuring side by side.

The basic purpose of a foreign trade zone is to develop or stimulate trade and commerce that otherwise would have been carried on abroad. Zones generally serve to stimulate American value-added activity that contributes to the economy by creating employment and investment.

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N.V.O.C.C. • AIR CONSOLIDATION • FOREIGN TRADE ZONE SPECIALISTS
• TRANSPORTATION SPECIALISTS • VESSEL HUSBANDING AGENTS • MOTOR FREIGHT BROKERS • INTERNATIONAL SHIPPING AGENTS
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Foreign Trade Zones provide users with facilities in Customs territory which foreign and domestic goods may be moved for activities ranging from storage and exhibition to assembly, inspection, manipulation, and manufacture. Exports and transshipments can exit the zone with full tariff forgiveness. Imports from zones are entered under a procedure giving the importer the choice of paying duties either on the product entered or on its foreign content. Goods may have their classification and duty rate frozen at any time prior to entry or alteration. Normally, goods imported into the United States must be cleared through U.S. Customs within 5 days of arrival and applicable duties must be paid at that time, unless the goods are entered into a foreign trade zone, or other alternative entry programs are used.

There are presently over 90 foreign trade zones established in the United States and they all offer the same basic benefits. The D/FW Zone has somewhat of a competitive edge because of the community's strong and abundant assets, however, we sacrifice or stand to loose this advantage because of an unsettled inventory tax issue which adversely effects the zones in Texas. Almost all zones in the U.S. have state legislation prohibiting the assessment of inventory taxes, but this is not the case in Texas. After analyzing the situation, the D/FW Airport Board and its legal assistance determined that the problem could best be solved by passing legislation on the federal level. As of this date, a bill has been submitted and passed by the House, but it is pending before the Senate. The majority of those involved with the promoting of the Zone feel that the pasage of this bill is essential to the development and growth of the Dallas/Fort Worth Zone. The success of the Zone will without question have a favorable impact on our community.

Congressman Vandergriff, your support on this matter will be greatly appreciated.

Mr. SKELTON. Thank you. I want to thank you also as always for your presentation this morning during our tour of the trade zone.

Ms. Downs.

TESTIMONY OF GINGER G. DOWNS, TEXAS COMMERCE BANK—ARLINGTON

Ms. DOWNS. Yes, I'd like to thank Congressman Vandergriff, yourself, and Congressman Stenholm for the opportunity to speak today.

I'm Ginger Downs of Texas Commerce Bank in Arlington, and we're part of the Texas Commerce Bancshares and I'm going to talk specifically on international banking,

We're located at 500 East Border Street in Arlington, TX.

Our services there in Arlington are approximately 2½ years old. We realize that there was a demand for the service in the mid-cities area, and, so, Texas Commerce Bank did address this and we have been quite successful in the 2½ years since we started our operations there.

We believe that international banking is one of the fastest growing activities of U.S. commercial banks. I think this has resulted really from two broad developments. First, the growing awareness in the United States of American political and economic participation in the world economy; and, second, the catalytic effect of U.S. banks international activities throughout much of the world.

We do feel that the world economy is vital to U.S. business as a market for U.S. made products. I think the world petroleum crisis made a lot of Americans realize our country's dependence on other nations. Many jobs in the United States exist because of the involvement of U.S. businesses. For this trade to be carried out, active international departments in commercial banks have proved essential.

An international department of a bank is virtually a minibank in itself. It carries on nearly every operation performed by a commercial bank engaged in international or domestic banking. It deposits and maintains its own deposits in other institutions. It pays checks against its own accounts and draws against its accounts abroad. It makes wire transfers, has a collections section dealing in incoming and outgoing items, and maintains credit information.

In addition, there are a number of other activities that are handled in the international department that the domestic divisions do not ordinarily come into contact with. Among some of these are letters of credit, purchase and sale of foreign currency banknotes, trading in foreign exchange, execution and marketing of banker's acceptances and the like.

For the new exporter, the first venture into an international field often takes the form of an inquiry from a potential buyer. Indifference, a booming domestic market, fear of dealing in a foreign language may deter the local businessman from seizing this first opportunity. However, I feel that the international banker can ease the way by making suggestions about the many services available to such businesses. In addition, their banker can help them analyze their own capabilities and ensure that they have the capacity to move into these international markets.

It's not unusual for a foreign buyer to request credit as a condition for the purchase. Although U.S. sellers can sometimes provide such credit on their own, sometimes they are unwilling or unable to do so. I feel that the international banker can examine these various means of arranging such credit.

Some of these ways will be discussed in panel 3 today, for example, Eximbank financing and foreign credit insurance associations.

Even though the U.S. Government does play an important role in international trade, I feel that the business community and the commercial banks have the responsibility for the day-to-day activities. I think that's a misconception a lot of times on the part of the American public. Governments are just not equipped to handle the millions of transactions that pass through the international banks on a daily basis.

Even when the governments need to effect payments, they need to rely on the commercial banks to handle them. I still feel that the business incentive still dominates world trade. All things being equal, business people will still buy in the cheapest market and sell whenever and wherever they can find a buyer.

I do feel that if U.S. banks are to maintain the leading role in the international market, their products, their services, organization, and people must also change to address both the future and the immediate financing needs.

Thank you.

[Ms. Downs' prepared statement follows:]

Prepared Statement of Ginger G. Downs, Texas Commerce Bank-Arlington

International banking is one of the fastest growing activities of U.S. commercial banks. This growth has resulted from two broad developments; first the growing awareness in the United States of the importance of American political and economic participation in the world economy, and second, the catalytic effect of U.S. banks international activities on economic growth throughout much of the world.

The world economy is vital to U.S. Business as a market for American made products. The world petroleum crisis made us realize our country's dependence on other nations. Many jobs in the United States exist because of the involvement of U.S. businesses in world trade. For this trade to be carried out, active international departments in commercial banks have proved essential.

The international department of a bank is virtually a miniature bank in itself. An international department carries on nearly every operation performed by a commercial bank engaged in domestic banking. It accepts deposits and maintains its own deposits in other institutions. It pays checks against the accounts on its books and draws against its own funds abroad. It received and pays out cash, makes cable transfers, has a collection section dealing with both incoming and outgoing items, lends money to its local customers and to borrowers abroad, and maintains credit information.

In addition, an international department also handles numerous transactions with which the domestic divisions do not ordinarily come into contact. Among such transactions are the opening of commercial letters of credit, purchase and sale of foreign currency banknotes, trading in foreign exchange, execution and marketing of banker's acceptances, and the like.

For the new exporter, the first venture into the international field often takes the form of an inquiry from a potential buyer. Indifference, a booming domestic market, fear of dealing in a foreign language, may deter the local business from seizing this first opportunity. However, their banker may be able to ease the way by making suggestions about the services available to such businesses. In addition, their banker can help the business analyze its own capabilities and ensure that it has the capacity to move into the International Market.

It is not unusual for a foreign buyer to request credit terms as a condition for the purchase. Although U.S. sellers can sometimes provide such credit on their own, they may be unwilling or unable to do so. Consequently, the international banker can examine various means of arranging such credit.

Eventhough, the U.S. Government can, and does, play a major role in the development of International Trade, the business community and the commercial banks have the responsibity for the day-to-day activities. The business incentive still dominates world trade. Therefore, if U.S. banks are to maintain their leading role in the international markets, their products, services, organization, and personnel must also change to address both future and immediate international financing needs.

Mr. SKELTON. Thank you, Ms. Downs. Mr. Nesenholtz.

TESTIMONY OF DAVID NESENHOLTZ, ASSOCIATE DIRECTOR, GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

Mr. NESENHOLTZ. Mr. Chairman, Congressman Stenholm, Congressman Vandergriff, my name is David Nesenholtz. I'm the associate director of the Governor's Office of Economic Development in Austin, TX.

And, I appreciate the opportunity to share with you some of the activities of our office. The Governor's Office of Economic Development began at Governor White's direction to look at those functions in economic development where no program existed at the State level in Texas; where diverse and often uncoordinated programs existed at various governmental levels and where good programs needed direct and ongoing advocacy from the Governor's office in order to be more effective.

Our guiding policy stressed an objective to greater diversify our economy. Our office has a coordinator for each identified area to address the policy and the direction necessary to maximize the Governor's impact on economic development in our State.

The Governor selected those policy areas he felt represented our strongest ability to build a successful program. Included are staffs to work on Governor's initiatives in the areas of interagency coordination, jobs, training and education, and industrial development. The final four areas that I'm going to list are areas that all greatly impact small business directly. Our small—our science and technology coordinator actively supports the small business innovations and research that are known as the SPIR Program, which is the Federal R&D set-aside program available to help small businesses, and also staffed the Governor's newly named science and technology council.

Our small business finance coordinator directs small business, the small business revitalization program in Texas. This program creates fixed asset, long term, low interest rate financing packages for small business expansion, by leveraging existing Federal programs and bank financing.

Our small business coordinator, in addition to working with the SBR Program, serves the additional function of keeping relevant policy focused on the needs of small business.

And, finally, our coordinator of trade and tourism provides a focus on existing State programs and directs policy with regard to the Governor's activities to promote trade and tourism.

The Governor's office of economic development is here to complement and supplement existing State agencies. As you can see, small business plays a major role in the work of our office. Small business holds a core position in our overall program. The statistics are clear and certain, small business is the key to job creation, economic expansion and diversity, and a refiring of this State's economic engines. And, within that context, export trade appears to be the fuel for such an effort.

Statistically, 80 percent of Texas' work force is employed by small business and analysis indicates that 80 percent of all new jobs are created in or by small businesses.

In 1983, Texas ranked third in the Nation in exports with a value of $22½ billion. However, that figure represents a minor portion, very minor portion of our State's manufactured products.

The stakes are too high and exports create too many jobs to ignore this potential. But, this task is made increasingly difficult by the impact of our Nation's deficit on the relative value of currency and on the balance of trade. The gross impact of the so-called strong dollar is no less than had we imposed high tariffs on our exported products and subsidized imported foreign goods.

Within these parameters, the challenge for the Governor's office of economic development then becomes translated into the Governor's commitment to a more aggressive export position into a policy that inspires a more effective network of the available programs and where possible fills the gaps that have been identified in that network.

Let me give you some examples of the response that we have had to this challenge. In the summer of 1983, the South Plains Association of Governments headquartered in Lubbock introduced a pilot project aimed at expanding the export opportunities for businesses in their area. Their emphasis on agribusiness and oilfield equipment, two industries in need of help, made the programs' success beneficial not only to the local economy, but on a replicative basis, potentially to the entire State's economy.

Our office was able to help on two fronts. First, by funding through a State assistance grant, the printing and dissemination of a primer on exporting, and then by providing the registration fees for the South Plains Association of Governments' international trade specialist to attend a weeklong export training program sponsored by the National Association of State Development Agencies.

Both these activities have greatly enhanced the South Plains Association of Governments' programs and that region's ability to increase its exports, but the primary importance of our office will be our ability to share that experience and expertise with other local governments throughout the State.

Clearly, local assistance is the best able to meet the needs of small businesses, and we are vigorously pursuing that type of assistance.

Additional examples will serve to point out the diversity of our approach. We have already heard a little bit about the small business development centers this morning. Certainly one of the endeavors of the small business development center has been relatively little utilized, is the programmatic emphasis on export assistance, particularly market information.

The lack of timely market information has been a major handicap in any concerted export enhancement effort. To date, of course, two small business development centers have been established in Texas, one at the University of Texas at Arlington and one at the University of Houston. We are actively encouraging the establishment of additional centers, and for them to include export programs as well.

Finally, on a larger scale, we are pursuing a substantial increase in hard foreign investment in Texas. Though perhaps the most long range of our initiatives and certainly the most difficult to achieve is one that promotes excitement. The Governor wants jobs

for Texans and foreign manufacturers are looking for new markets and secure investments.

With a concerted effort, the potential payoff for Texas' economy are tremendous. And, so, you can see, although diverse and more policy and program oriented, we feel that the Governor's Office of Economic Development, of course, with the guidance and support of the Governor directly, has begun to yield some benefits to an expanded export network for Texas.

Thank you very much.

[Mr. Wiedemann's prepared statement follows:]

PREPARED STATEMENT OF HARDEN H. WIEDEMANN, DIRECTOR, GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

Congressman Vandergriff, Congressmen Stenholm and Skelton, as director of Governor White's Office of Economic Development I am pleased to be here today and particularly pleased to share with this distinguished panel and the other participants the work of the Governor's Office of Economic Development. Allow me to begin by giving you a brief history of our office. Texas' decentralized form of government, often frustrates the most worthy effort to effectively initiate or to coordinate state programs. Within this context, we began at Governor White's direction to look at those functions of economic development where no program existed at the state level; where diverse and often uncoordinated programs existed at several governmental levels where good programs needed direct and ongoing advocacy from the Governor's Office in order to be more effective. The guiding policy stressed an objective to greater diversify our economy. The program provided a coordinator in our office for each identified area, who addresses the policy and the direction necessary to maximize the Governor's impact on economic development in Texas.

The Governor, selected those policy areas that he felt represented our strongest ability to build a successful program. Included was creation of an Interagency Council on Economic Development, chaired by the Governor and made up of the Chairmen of the major state agencies involved in economic development. The Council created an Administrator's Coordinating Council, chaired by the Director of OED and we have created two Working Groups, one on State Marketing Activities and one on state permitting programs. A second area coordinates industrial location efforts by facilitating location or expansion inquiries in a quick and unrestrained manner. Jobs, Training and Education focuses on several programs such as industrial start-up training; the Jobs Training Partnership Act and vocational technical education. The final four areas all impact small business. Our Science and Technology Coordinator actively supports the Small Business Innovation and Research program, the federal R&D set aside available to defray the huge costs of developing technologies, and staffs the Governor's newly named Science and Technology Council; our Finance and Taxation Coordinator directs the Small Business Revitalization program which creates fixed asset, long-term, low interest rate financing package for small business expansions, by leveraging existing federal programs and bank financing. Our Small Business Coordinator, in addition to working in the SBR program serves the additional function of keeping relevant policy focused on the needs of small business. And finally our Coordinator of Trade and Tourism provides a focus on existing state programs and directs policy with regard to the Governor's activities to promote trade and tourism. The Governor's Office of Economic Development is here to complement and supplement existing State agencies.

As you can see -- small business plays a major role in the work of our office. Small business holds a core position in our overall program. The statistics are clear and certain -- small business is the key to job creation, economic expansion and diversity and a refiring of this state's economic engines. And, within that context export trade appears to be the fuel for such an effort.

Statistically - 80% of Texas' work force is employed by small business and analysis indicates that 80% of all new jobs are created in or by small business. In 1983, Texas ranked third in the nation in exports with a value of 22.5 billion dollars. However, that figure represents a very minor portion of this state's manufactured products. The stakes are too high and exports create too many jobs as not to do all we can. But, this task is made increasingly difficult by the overwhelming impact that this nation's deficit is having on the relative value of currency and therefore, the balance of trade. The gross impact is no less than had we imposed high tariffs on our own products and subsidized imported foreign goods.

Within these parameters, the challenge for the Governor's Office of Economic Development then becomes translating the Governor's commitment to a more aggressive export position intc a policy that inspires a more effective network of the available programs and where possible fills any gaps that have been identified in that network. Let me give you several examples of the response we have had to this challenge. In the summer of 1983, the South Plains Association of Governments headquartered in Lubbock introduced a pilot project aimed at expanding the export opportunities for businesses in their area. Their emphasis on agri-business and oil field equipment -- two

seriously depressed industries -- made the programs' success beneficial not only to the local economy, but on a replicative basis to the entire state's economy. Our office was able to help on two fronts, -- first by funding through a state assistance grant, the printing and dissemination of a primer on exporting, and then by providing the registration fees for SPAG's International Trade Specialist to attend a week-long export training program sponsored by the National Association of State Development Agencies. Both these activities have greatly enhanced SPAG's program and the regions' ability to increase its exports, but the primary importance for OED will be our ability to share SPAG's experience and expertise with other local governments. Clearly, local assistance, that most available to small business, is best able to meet their needs and we are vigorously pursuing that type of assistance. Three additional examples will serve to point out the diversity of our approach. Under SBA, Universities in Texas can apply for funding to create Small Business Development Centers, whose aim is to increase small businesses access to problem solving expertise within the academic community. One of the endeavors of the SBDC, though it has been little utilized, is a programmatic emphasis on export assistance, particularly market information. The lack of timely market information has been a major handicap to any concerted export enhancement effort. To date, two SBDC's -- one at the University of Texas at Arlington and one at the University of Houston -- have been set up in Texas. We are actively encouraging the establishment of additional centers and for them to include export programs. And finally, on a larger scale, we are pursuing a substantial increase in hard foreign investment in Texas. Through perhaps the most long-range of our initiatives and the most difficult to achieve, it is one of the most exciting. The Governor wants jobs for Texans and foreign manufacturers are looking for new markets and secure investments. With a concerted effort the potential payoff for Texas' economy are tremendous. And so you can see, though diverse and more policy programmatically oriented we do feel that OED with Governor's guidance and support has begun to yield some benefits to an expanded export network for Texas.

I would be happy to answer any questions you might have.

Mr. SKELTON. Thank you. Mr. Linden.

TESTIMONY OF JOHN M. LINDEN, DIRECTOR, INTERNATIONAL DIVISION, TEXAS ECONOMIC DEVELOPMENT COMMISSION

Mr. LINDEN. Distinguished Congressmen, ladies and gentlemen, I am John Linden, the director of the International Division of the Texas Economic Development Commission and we are located at 410 East Fifth Street in Austin, TX.

My career has been completely in international marketing for large U.S. corporations, and I have spent more than half my adult life living overseas for that purpose.

I believe, therefore, very strongly in having overseas outlets for the promotion of trade and reverse investment. Being in the center of the marketplace will guarantee the maximum efficiency, the shortest communications lines to the prospective trading partners.

I would like to enumerate to you the services available from the TEDC, and from the little corner that I'm heading, the international division, which is staffed by four people. We have an annual budget of $200,000, add to that the Mexican office, which is a $100,000 a year budget, which gives us a total of $300,000, and six people to take care of specifically international business development for the State of Texas.

It may sound astonishing that it is so little for such a large State. I would like to read some statistics to you. Our State rank by number of personnel engaged in international business is No. 30 of the 50 states. By ranking of per capita spending on international business development, it is No. 34, and by percentage of total spending on international business development, it is No. 45.

While the Texas Economic Development Commission, of course, concentrates on the small and medium business for the simple reason that large businesses do not require our help, they can take very good care of their own business, we have a number of activities that benefit such small and medium sized businesses.

For instance, there is the industrial revenue bond service, the Development Corporation Act of 1979 provides financing for manufacturing, industrial and limited commercial facilities by allowing nonprofit development corporations to issue tax-exempt revenue bonds. This is not unusual because a majority of the states are offering industrial revenue bonds.

We have research and data services available at TEDC. We maintain an in-house library and socioeconomic data base which includes community statistics on more than 500 Texas cities. We provide research assistance to businesses, communities, and individuals and other State agencies upon request.

Texas Small Business Development Corp.: Texas Small Business Development Corp. is a nonprofit issuer of tax-exempt industrial revenue bonds for small business concerns. Limited to the public purpose of small business promotion, and the development of new and expanded commercial, industrial and manufacturing enterprises to encourage employment and public welfare in the State of Texas.

Business development assistance: This assists small businesses and minority businesses and communities in developing their eco-

nomic development capabilities. Small and minority businesses are provided assistance in identifying and bidding on State contract opportunities.

We also assist them in developing tools, local development companies and industrial foundations, revolving loan funds, low cost loan programs, community development credit unions, whatever it takes.

The next effort is our industrial startup training program. It's a liaison between new and expanding Texas industry and the Texas educational agencies in coordinating startup training programs. These programs result in dedicated and committed employees and improved productivity.

Rural loan funding: Under the Texas rural loan fund, money is available to assist rural areas in attracting industry. The State's portion of the total loan package is never more than 40 percent. The foundation pledges 10 percent, and the rest comes from other sources.

Site selection services: We have a professional industrial development consultants site selection service that is highly effective in attracting new industry from outside the State to the State of Texas and for expanding already existing Texas industry.

The staff is very knowledgeable about communities and we maintain a computerized insta-site program that matches industry's requirements with communities which meet or exceed those needs. We also arrange onsite inspections.

Community services provide a whole series of training programs to establish effective total economic development programs.

International assistance: The economic development commission is responsible for encouraging and developing commerce with other States and foreign countries. The staff provides import/export information to Texas businesses, encourages and coordinates Texas company participation in foreign trade shows, conducts foreign trade missions to advance the export of Texas products, and sponsors reverse investment missions of interest to foreign firms investing in Texas.

The commission also maintains the State of Texas office in Mexico City. The international division is responsible specifically for the following areas of activity:

Buyer-seller response: Responding to buyer-seller inquiries by letter, telephone and telex. Client counselling. Advising prospective exporters and investors on ways to reach their objectives.

INTOP program: Collection and distribution of worldwide trade leads to Texas manufacturers.

Trade seminars: Conducting and cosponsoring trade seminars.

Trade missions: Conducting trade missions abroad for Texas companies.

Trade fairs: Organizing and conducting participation in international trade fairs.

Exporting workshops: Organizing and conducting export workshops.

Investment missions: Organizing and conducting missions to attract foreign manufacturing investment to Texas.

Maintaining ongoing contact with U.S. Department of Commerce offices in Texas and Washington, the Texas Industrial Development

Council, District Export Councils, chambers of commerce, Economic Development agencies, and institutions and other organizations to plan joint programs and to exchange useful information.

We also cooperate with organizations that foster friendly and profitable relations between Texas and foreign countries, such as the Japan/Texas Association, the Korea/U.S. Association, et cetera. We maintain ongoing contact with foreign consulates and foreign trade commissions to be advised of planned visits by foreign companies that could be used to stimulate international business.

We make presentations of the services of TEDC to any audience where these could further international business development for Texas.

And, finally, we maintain the State of Texas office in Mexico City. This office reports to the international division. It is staffed with two Spanish-speaking consultants who engage in full-time promotion of business for Texans and Mexicans who wish to engage in mutual trade.

Close relations are maintained by the office with the U.S. Embassy, U.S. Trade Center, regional governments, chambers of commerce, central government departments and other appropriate institutions and businesses.

Business advice and assistance is freely provided and assistance given to delegations and visitors from the Governor's office, department of tourism, department of agriculture, et cetera. The office has generated substantial goodwill and business volume, and has been praised by those who have had occasion to use the services.

[Mr. Linden's prepared statement follows:]

PREPARED STATEMENT OF JOHN M. LINDEN, DIRECTOR, INTERNATIONAL DIVISION, TEXAS ECONOMIC DEVELOPMENT COMMISSION

TEXAS ECONOMIC DEVELOPMENT COMMISSION

The Commission, established in 1959, is one of the smaller state agencies. Formerly known as the Texas Industrial Commission, the name was expanded to TEDC on September 1, 1983, to denote a broader scope of responsibilities. The staff works with new industry from out-of-state, as well as promoting economic development across the state performing the duties mandated by the Legislature.

PROGRAM AND SERVICES OF THE TEXAS ECONOMIC DEVELOPMENT COMMISSION

Industrial revenue bonds

The Development Corporation Act of 1979, as amended, provides financing for manufacturing, industrial, and limited commercial facilities by allowing non-profit development corporations to issue tax-exempt revenue bonds. Under the Act, the Economic Development Commission reviews the lease, loan or sale agreement to assure compliance with the statutory requirements.

Research and data services

The Economic Development Commission maintains an in-house library and socio-economic data base which includes community statistics on more than 500 Texas cities. Our staff provides research assistance to businesses, communities, individuals and other state agencies upon request. The Commission also publishes and offers, at no charge, a variety of publications useful to business and communities.

Texas Small Business Development Corp.

TSBIDC is a non-profit issuer of tax-exempt Industrial Revenue Bonds for small business concerns in the state. The activities of TSBIDC are limited solely to the accomplishment of the public purpose of small business promotion and to the development of new and expanded commercial, industrial and manufacturing enterprises to encourage employment and public welfare in the State of Texas.

Through the use of a composite issue revenue bond, TSBIDC can "pool" numerous small projects together under one bond program. Having statewide jurisdiction, the Corporation can combine eligible projects from across the state to form an issue. Each project will represent a separate series in the issue and will be limited to $750,000 in bond proceeds. In the past, Industrial Revenue Bond financing has not been economically feasible for small businesses due to the associated costs of the financing. In a composite issue bond program, these costs are pro-rated among all the applicants, making this financing tool more cost effective for smaller projects.

Business development assistance

This program provides assistance to small and minority businesses and to communities in developing their economic development capacity. Small and minority businesses are provided assistance in identifying and bidding on state contract opportunities. They are also provided assistance in developing business skills and in identifying and securing sources of financing. The staff will assist communities in assessing their capabilities and needs and developing tools, i.e., local development companies, industrial foundations, revolving loan funds, low-cost loan programs, community development credit unions, development corporations and others. Community leaders are trained in business development techniques and are provided counseling on the use of industrial revenue bonds and the rural loan fund.

Industrial startup training

Our industrial development consultants serve as liaison between new or expanding Texas industry and the Texas Education Agency in coordinating start-up training programs. These programs help recruit and train the new work force needed for production. The training programs deliver dedicated and committed employees, resulting in improved productivity and lower absenteeism and turnover.

Rural loan fund

Under the Texas Rural Loan Fund, money is available to assist rural areas in attracting industry. The state loans these funds to private, non-profit industrial foundations at rates below the prime interest rates. The state's portion of a total loan package is never more than 40%. The foundation pledges a minimum of 10%, and the remaining project costs come from other financial sources. Funds are to be used for land and building costs. No speculative projects are financed.

Site selection services

Professional industrial development consultants assist either new industry or expanding Texas industry in its site location search for plant facilities. Our staff is knowledgeable about Texas communities and available sites and buildings. Through our computerized Insta-Site program, we can match industries' requirements with communities which meet or exceed those needs. Our staff also helps arrange on-site inspections.

Community services

Our consultants assist Texas communities through a series of training programs that establish an effective local economic development program. These include a basic introduction to industrial development, economic development clinics, industrial sales team training, etc. Communities that have taken advantage of these services are three times more successful in locating industrial facilities than communities that have not utilized these services.

International assistance

The Economic Development Commission is responsible for encouraging and developing commerce with other states and foreign countries. The staff provides import-export information to Texas businesses, encourages and coordinates Texas company participation in foreign trade shows, conducts foreign trade missions to advance the export of Texas products, and sponsors reverse investment missions of interest to foreign firms investing in Texas. The Commission also maintains the State of Texas Office in Mexico.

INTERNATIONAL DIVISION

The international Division of TEDC of which I am the director, is responsible for the following areas of activity:

1. *Buyer-Seller Response.*—Responding to buyer-seller inquiries by letter, telephone and telex.

2. *Client Counseling.*—Advising prospective exporters and investors on ways to reach their objectives.

3. *INTOP Program.*—Collection and distribution of worldwide trade leads to Texas manufacturers.

4. *Trade Seminars.*—Conducting and co-sponsoring trade seminars.

5. *Trade Missions.*—Conducting trade missions abroad for Texas companies.

6. *Trade Fairs.*—Organizing and conducting participation in international trade fairs.

7. *Exporting Workshops.*—Organizing and conducting export workshops.

8. *Investment Missions.*—Organizing and conducting missions to attract foreign manufacturing investment in Texas.

9. *Maintaining On-going Contact With.*—USDOC offices in Texas and Washington, the Texas Industrial Development Council, District Export Councils, Chambers of Commerce, Economic development agencies and institutions and other organizations to plan joint programs and to exchange useful information.

10. *Business Association Contacts.*—Cooperate with organizations that foster friendly and profitable relations between Texas and foreign countries. Example: Japan-Texas Association, the Korea-U.S. Association.

11. *Contact with Foreign Consulates and Trade Commissions.*—On-going contact to stay advised of planned visits by foreign companies that could be used to stimulate international business.

12. *Presentations.*—Presentations of the services of TEDC to any audience where these could further international business development for Texas.

13. *The State of Texas Office in Mexico City.*—This office reports to the international division. It is staffed with two Spanish-speaking; consultants who engage in full-time promotion of business for Texans and Mexicans wishing to engage in mutual trade.

Close relations are maintained with the U.S. Embassy, the U.S. Trade Center, regional governments, Chambers of Commerce, central government departments and other appropriate institutions and businesses. Business advice and assistance is freely provided and assistance given to delegations and visitors from the Governor's Office, the Department of Tourism, the Department of Agriculture, etc. The office has generated substantial business volume and has been praised by those who have had occasion to use the services.

Survival through exporting

When recently the demand for oil dropped dramatically, our economy suffered proportionately; employment in the oil, chemical and allied sectors contracted sharply, pulling down employment in the ripple-effect economy.

State receipts dropped and state and local income became insufficient to finance State, county and municipal programs. Banks that had made large loans to oil-producing countries found that their clients' oil revenues had lagged so far behind projections on which the loans were based that they could not make interest payments; loans had to be stretched over longer periods to make repayment possible.

This situation resulted in a strong export drive in the debtor nations to earn hard currency at almost any cost for the repayment of interest.

The effect of this development has been to increase the U.S. foreign trade deficit and to generate increasing foreign competition in our markets.

The markets that used to be referred to as domestic markets are not domestic any longer; the rules of the game have been changed. We are now living in a global market in which we have to compete with invading foreign enterprising competitors that are often subsidized by their governments and who may pay wages far below those of our workers.

The U.S. dollar is at an all-time high, conditions are perfect for foreign exporters and American manufacturers, whether they realize it or not, are becoming part of an economic revolution and they must gird themselves quickly to fight for their very survival.

Since protectionist measures go against the grain and spirit of our free enterprise system we cannot count on that kind of relief.

One way open to us is to look way beyond our old proprietary markets and learn to export our goods to areas that are not being so strongly besieged as the U.S. market which is so attractive to so many countries.

Another avenue open is to establish manufacturing plants in Europe, Asia, etc., But this solution is not practical for smaller companies that do not have the resources or expertise to invest overseas. They need help here at home and they need it more than ever.

Where can they get help and is it affordable?

Many business development organizations have organized trade missions for local businessmen to pre-qualified overseas markets in an effort to establish new sales

outlets. For a number of companies, the cost of this approach seems high. What is needed, especially in view of strong promotion programs by other U.S. states, is a well-funded, well-planned, well-organized and coordinated program directed by TEDC in cooperation with various existing and nascient business organizations.

The synergistic effect of such a combined export operation would maximize effectiveness at minimum cost through avoidance of duplication, multiplication and overlapping of separate efforts, and through economies of scale.

Such coordinated activity should be directed at the most effective level. For instance, in many overseas countries the doors that open widely are the ones that are controlled by governmental ministries and departments.

A delegation from Texas representing all major State regions headed by the Governor and including representatives of the Governor's Office, TEDC, cities, Chambers of Commerce, banks, etc., would get maximum attention from the government, business, the Press, TV, etc.

This approach utilizes time effectively, magnifies impact and boosts return on investment.

Texas spends very little on export and investment development.

26 U.S. states have permanent trade offices in Tokyo. More than this number have permanent offices in Europe. We have a lot more to offer than other states have, but we are not making a sales effort.

The Province of Quebec in Canada has a budget of $20 million for export development and reverse investment; they have 6 offices in the United States and 11 overseas. They employ 200 people in this organization; they pay half of initial expenses for companies trying to get into export.

Austria finances it substantial export promotion program through a 3 per mil levy on all exports and imports.

It is not enough to be a great state and to have many things to offer. Like all successful companies, Texas must invest in order to obtain a return. No matter how good we are, we must have the staff and tools to sell our wares.

The heady days of the oil boom are gone, probably forever. We must must now take inventory of our assets and capabilities, formulate a strategy, and provide what is takes to implement significant plans for the great future that can be ours.

Mr. SKELTON. Thank you, Mr. Linden. Mr. Vandergriff.

Mr. VANDERGRIFF. Thank you, Mr. Chairman. I will be directing a few questions to this panel. I would like to take this opportunity to personally thank Mr. Blake, the North Texas Commission, together with the Dallas/Fort Worth Airport Board for their role in providing us with a marvelous experience here in our hearing. They have given us some excellent facilities and provided refreshments. We're most grateful. We wish to thank Mr. Sekin, for hosting the informative tour this morning, and then I think Mr. Cochran of SimuFlight was here earlier, perhaps he had to leave. They certainly hosted us at a very pleasant reception last evening.

I think all of these efforts indicate not only typical Texas hospitality, but a keen interest in and support for what our committee is attempting to do, and so we're most grateful to all of you who have been so kind to us.

Mr. Blake, and for that matter, Mr. Sekin, might comment on this as well, your concern about the danger of local taxes being imposed within the trade zone. Is this perhaps why you have not as yet at least gotten the manufacturing facilities therein that I personally would have thought you might have had by now?

Mr. BLAKE. Precisely. That one prospect I mentioned earlier was in manufacturing. In fact, the Japanese manufacture electronics products. They have carried themselves all the way to the point of getting into contract negotiations when their counsel discovered the tax issue which caused them to say we had better not do that.

So, it has been detracting manufacturing organizations.

Mr. VANDERGRIFF. Would you agree with this——

Mr. SEKIN. Yes, sir. Yes; I agree with that.

Mr. VANDERGRIFF. So it simply underlines the importance of this legislation and the fact that it is so very vital to you and to our region.

Mr. SEKIN. Of course, many of the other zones throughout the country have advertised the fact that there is no inventory tax. I think this is part of perhaps hold back in our airport, and the North Texas Commission going full speed ahead in marketing the zone, because it is a very important consideration.

Mr. BLAKE. Local tax jurisdictions have said they won't tax, but that still does not satisfy the tax counsel for the organizations.

Mr. VANDERGRIFF. That's just not sufficient assurance for their purposes. All right. We'll go back to Washington with an added incentive then.

Speaking of the Senate, Mr. Whitson, you referred in your written testimony and since you didn't have the time to do so earlier perhaps we can now ask you to expand upon the removal of export disincentives. This seemed to be a major objective of yours, as well as the export licensing dilemma.

I wonder if you could enlarge upon those points.

Mr. WHITSON. Well, most of the disincentives that apply to the small business have been enumerated earlier. We come to the tax situation as one disincentive that could be taken and addressed. An agreement consistent with the GATT could be worked out to give small businesses a tax break for exports. Then you would find high risk venture capital financing available.

Once the business is going and established, the banks would feel easier and freer to move into the financing. So, the financing disincentive is one point I was making, and this will come in from the other testimony.

The disincentives we are talking about in the removal of export disincentives goes back to the need for clarification and consistency in the Arab boycott legislation and other trade barriers we have set up, i.e., the human rights. The main thing here is that when we come to get export licenses, we are prohibited from shipping to certain countries, for some of these very reasons, without clear guidelines.

I spent, back in 1979, an estimated $75,000 a year just in keeping up with these kinds of disincentives and on what was out there in the present laws that would keep us exporting or why you could ship to one country or why you could not ship to another country. So, it's those things, I think, that everybody is talking about as disincentives. The greatest incentive we would have is the removal and/or clarification of some of the disincentives that impact export licensing. It's really what I'm addressing here.

Mr. VANDERGRIFF. I see.

Mr. WHITSON. The trade boycott, of course, was one.

Mr. VANDERGRIFF. All right.

Mr. WHITSON. As an example.

Mr. VANDERGRIFF. You mentioned the recommendations at the national District Export Councils 1984 meeting. Would you provide us with those recommendations? We'd like to have that. I think it would be very beneficial to us.

Mr. WHITSON. Yes.

Mr. SKELTON. If you could get that to us within 7 days, we could make it part of this record. We'd appreciate it, Mr. Whitson.

Mr. WHITSON. It will be done.

Mr. VANDERGRIFF. Thank you.

One last question other than praise——

Mr. WHITSON. The Foreign Corrupt Practices Act probably gives more heartburn to people because we really don't what it is, particularly the new small business export person. Large companies have several legal people just defining what the Act is and what it means.

Thank you for coming to the Dallas/Fort Worth region and permitting me to participate in this hearing.

Mr. VANDERGRIFF. Thank you, sir. One last question, other than praise for our hosts here from the State of Texas. I'm impressed by all the things that both the Governor's office, your office, and Mr. Linden, are doing.

But, Ms. Downs, you cited a number of things that you were providing in the way of services for international customers. You've heard earlier comments about the hesitancy of Texas banks to move forward into this field of financing businesses that wish to export. Yours is one of the largest banking institutions in our State, certainly, and in the country, for that matter.

Ms. DOWNS. That's right.

Mr. VANDERGRIFF. What are your reactions in this regard?

Ms. DOWNS. Well, I do have some comments. I was here earlier, and I did hear some of the comments made from the others giving some testimony about the banks being unwilling to get involved in financing new exporters, and I sympathize with them. I do think there are a lot more reasons that go beyond that that were not brought out in those testimonies.

I think the key consideration is we're coming in contact with new exporters, whereby this is not a full-time venture, say this is a part-time. They have other full-time obligations, and they have decided to go about getting into the export business part time or at night or in their off hours. And, they will come to us, sometimes at the last minute, we're shipping next week, we'd like for you to do some financing for us, and, of course, that gives us barely enough time to get our own information together to make the credit decisions, and then sometimes we tell them that there are other ways of going about providing financing through Eximbank or FCIA. However, this takes time.

Now, we can't do this for you by next week, I think the key here is for them to do their homework, and when they meet with their banker, they really have a lot more knowledge. They can express to their banker exactly what their needs are going to be the next 6 months or a year, and give the banker or the Eximbank people time to line up this financing to meet their needs.

But, yes, we turn away a lot of brand new exporters that need it next week or in 30 days, they need it right then. Of course, we can make our credit decision within that period of time, but if they need the aid of SBA or some other financing organization, that just takes time.

Another comment I'd like to make is that a lot of banks are hesitant to get involved with SBA, Eximbank or FCIA, a lot of this is

due to the increased amount of paperwork, and time that it takes to arrange this type of financing. I think a lot of banks right now are trying to watch their overhead and keep it down. I know at Texas Commerce Bank, Arlington, being that this is a new service of our bank, we have done an awful lot in the way of letter of credit transactions and all the rest that I mentioned in my testimony, but we have not actually been active and done Eximbank financing. But, I think that we are willing to do that, and that we need more contacts with Eximbank and FCIA so we can, of course, be able to work smoothly and easier with those new exporters.

Mr. SKELTON. Speaking about the Eximbank. In a few minutes, you will hear a gentleman testify from them.

Ms. DOWNS. I would like to make one more comment, if I might, concerning export——

Mr. SKELTON. We're going to be cutting our next panel short. Would you do me the favor and add to it? I just hate to cut them off. They have come a long distance.

Ms. DOWNS. OK.

Mr. SKELTON. Thank you all so much. Mr. Stenholm, any questions?

Mr. STENHOLM. No. I'll defer to the chairman.

Mr. SKELTON. Next panel, please. This panel is composed of Federal agencies. We have been waiting all day for you guys. The problems we have heard about today concern you. So, hopefully you can just undo them.

I will follow the same procedure, Mr. Stiles. If you would introduce yourself and go forward.

TESTIMONY OF C. CARMON STILES, MANAGING DIRECTOR, REGION VII, INTERNATIONAL TRADE ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

Mr. STILES. I'm Carmon Stiles, Regional Managing Director of the U.S. and Foreign Commercial Services. If that sounds strange, the U.S. Department of Commerce, it's because we have been known by so many different names than people are not even sure who we are these days because of our name. We were known, we answered our phones many times in the past as U.S. Department of Commerce, International Trade Administration, Department of International Trade Administration, and we're now known as the U.S. and Foreign Commercial Services.

Mr. SKELTON. Are you separate and distinct from the Commerce Department, or are you part of it?

Mr. STILES. Yes, sir. My testimony is only for the U.S. and Foreign Commercial Services.

Mr. SKELTON. But, technically, you are under the——

Mr. STILES. Yes, we are.

Mr. SKELTON. You are owned by the Department of Commerce, your whole operation?

Mr. STILES. That's correct.

Mr. SKELTON. Where is your home and your address, please?

Mr. STILES. Our address is 1100 Commerce Street, room 785, Dallas, TX.

Mr. SKELTON. Thank you, sir.

Mr. STILES. Our office in Dallas will serve not only the district office for about two-thirds of the State of Texas, including all of northeast and southwest and central Texas, but also serves as a regional office for six of our offices in the Southwest, including Texas, Louisiana, Arkansas, Oklahoma, New Mexico, and Texas.

The U.S. and Foreign Commercial Services came out of a merger 2 years ago when the State Department transferred to us all of the foreign commercial services of the U.S. Government abroad. Those foreign commercial attachés in the U.S. embassies abroad then became employees of the same organization that we are. So, whether you're a commercial attaché or a commercial representative in Bangkok, Tokyo, Buenos Aires, or whatever city, is that you're in the same organization that we and the 47 district offices are in in the United States.

The combination of that group has been an extremely strong one. Because, essentially, we are at both ends of the same transaction. Working with U.S. industry at this end, we provide counseling services in terms of advising a company where his markets are, how to get into those markets, programs that assist him in both the public and private sector, and then we provide him a followup service to sort of trouble shoot problems for him after he does it.

I would hope that you don't confuse us with the regulatory enforcement types of agencies because ours is a marketing service as opposed to—as compared to some other element of Commerce and of other agencies.

Our jobs through our trade specialists, which we have nine such specialists in the State of Texas, is to identify companies, primarily small companies, in that 87 percent of the total companies we deal with are small businesses, not large businesses, is that we identify those companies that have the greatest potential in the world markets.

We identify them from trade associations, through chambers of commerce, through the Texas Manufacturing Directory, through any source that we can find, business or service involved with an export potential.

Having identified those people, in most cases, we go to them in their office, in their manufacturing plant, sit down with management and assess what we believe to be their export potential. Using the information from the foreign commercial service on countries abroad, economic, and equipped with a great deal of assistance from the private sector and local organizations, principle service we provide the business community is export counseling.

It's one of the reasons that we're so poorly known because you know us from the seminars, the conferences, and association with these other groups, what you never hear about is the thing we do most, and that's the one to one counseling that we sit down with your business community and provide them with a continued counseling, day by day, leading them towards solving a problem or entering an export market.

Those conversations and those counseling actions tend to be very confidential, very private things, not available to the public, not available to competitors, because they involve that particular company's secrets about their products, their marketing strategies, their economics, and their plans for entering the world market.

Equipped with that information and having a knowledge of Government services, what our trade specialists tend to do is to match the various Government programs, vis-a-vis, all the Commerce programs, trade opportunities, trade missions, trade promotion events, all kinds of commercial services with many of the exporters. But, it doesn't stop there because sometimes other government agencies have programs that are extremely personal to that customer's needs.

Certainly the Export-Import Bank of the United States is one of those important areas. So is the Small Business Administration. So is the Foreign Credit Insurance Association. OPEC. Private investment capital. There are many organizations that the business public simply doesn't have the awareness of. They don't know where to go to get the information. Our job is to determine what is the problem, what is the opportunity, and begin matching that company with the specific people who can provide answers to very specific companies.

Ours isn't a case where we simply go into a company one time, hand them a packet, pass out literature, give them a pep story, and walk away; it's a continuing followup program.

Here in the metroplex area, we have something over 400 companies, most of which are small businesses, that we provide regular followup counseling service with. I'd like to commend the cooperation that we've had from the business community. I don't think we as a bureaucratic organization could have been effective had we not had the support of people like the district export council, as Ray Whitson presented to you. Certainly we could not have had the support unless we had the chambers of commerce, the trade associations, the Office of the Governor, the Texas Economic Development Department, many organizations that have worked hand and glove with us, working with prospects, sharing the data. I can truly say it's been a cooperative effort of the people we have worked with.

It's not limited just to the public sector; the private sector has been invaluable to us because when we encounter problems like legal problems, finance problems, accounting problems, we must resort to a host of private business people who've been there, who've done it, to walk in and provide the kind of counselling services, to answer the business problems that we have as exporters.

In summary, I want to say that I have spent 36 years right here in metroplex in the Office of International Trade, 20 of those were as a private corporation businessman. We developed 124 markets for my company, a small business company. It was hard work. We were missionaries at that point in time. It's more difficult now. It's very competitive. People have to be more aggressive. They have to know more than they did in those days.

Our deputy, Frank Foster, has been an invaluable asset here working with the organizations and doing things in the international community. I'd like to commend him for his efforts and also thank the community for supporting us.

[Mr. Stiles' prepared statement follows:]

Prepared Statement of C. Carmon Stiles, Managing Director, Region VII, International Trade Administration, U.S. Department of Commerce

The U.S. and Foreign Commercial Service of the United States Department of Commerce provides counseling and commercial service to the United States business community through the forty-seven District Offices in the United States and the sixty-seven posts overseas. In 1982, the commercial services of the U.S. Embassies abroad were transferred from the State Department to the Commerce Department and became a part of the U.S. and Foreign Commercial Service. Our primary functions are to locate U.S. business firms whose goods or services have a good potential in foreign markets and to assist those interested firms in developing appropriate techniques, knowledge and contacts to successfully conduct sales in foreign markets.

In Texas there are nine Trade Specialists located in Dallas and Houston District Offices whose responsibility is to provide technical assistance to existing exporters in locating new markets and to discover non-agricultural firms who wish to expand sales into international markets. Direct communications with country and program specialists in Washington and in our commercial offices in Embassies abroad provide Trade Specialists with marketing data, economic data, promotional events such as trade missions and trade shows, major foreign government contracts, potential agents and distributors and trade opportunities for direct sales.

As in private industry, Trade Specialists have assigned geographical areas of the state in which they have export development responsibility. They work closely with chambers of commerce, trade associations, the Texas Economic Development Commission, Texas Department of Agriculture, universities and international organizations who assist in identifying potential new exporters, conducting educational programs and providing selected export information to business firms in their selected area.

The international business community plays an important role in assisting the U.S. and Foreign Commercial Service expand exports. The District Export Council are members from the business community who are appointed by the Secretary of Commerce to provide assistance without compensation to our District Offices. Their actual experience in specialized fields of marketing, management, finance, freight forwarding, accounting, legal, transportation and other fields provide a professional business background to assist District Offices in counseling Texas exporters on the most successfuly techniques being used to successfully do business abroad.

While travel funds are limited to about $1,500 per year for each Trade Specialist, many counseling actions occur in customer's plants and offices. Each Trade Specialist works an account load of about 400 Texas firms on a frequent to regular basis providing continuing counseling to clients as needed. Because export assistance programs are widely scattered throughout the U.S. government, Trade Specialists provide a major service by knowing what kind of assistance is available to exporters from various Federal, State and Local government organizations as well as from the private sector. Tapping

those sources for information can be a valuable service, especially for small business firms who are not aware of what services are available, where they are and how to best use them.

Before the advent of great import gains, most business firms chose to confine their markets internally to U.S. markets because of the huge market size. This is in contrast to most foreign business firms who must export to survive. They too found the vast U.S. market and have utilized their great skills for adapting their products and services to our markets. Competition has increased both at home and abroad. No longer is it possible for a U.S. firm to ignore foreign competition even if he or she chooses to remain only in the U.S. marketplace. So, doing business today, whether at home or abroad requires a knowledge and understanding of international trade. In many cases, it behooves the U.S. firm to select foreign markets in which he or she can compete and adapt their marketing, production, financial and cultural techniques to fit the market being developed. The U.S. and Foreign Commercial Service can be most helpful in doing this.

As competition between U.S. and foreign firms as well as governments increase, more skill and knowledge is required to achieve and maintain successful sales and profits. The value of the U.S. dollar abroad works toward our disadvantage in foreign competition while working to our advantage in the domestic economy. Direct and indirect export subsidies in the U.S. are very limited, while widely practiced in other economic developed nations. Protection of U.S. technology against foreign military use is admirable, but causes some in the U.S. exporting community great difficulty and lost sales.

Our moral conduct of not bribing government officials is commendable, but not universally practiced by other foreign governments and firms. The dilemma of this paradox is one emphasizing the need for Members of Congress, Administration officials and the American business community (both small and large) to work more closely together with a better understanding of how and to what extent their actions can impair or assist U.S. industry maintain and increase its position in world markets while maintaining necessary national security. Toward this end, a comprehensive short and long range plan developed by these three groups could produce a better defined, more closely coordinated export policy for the United States.

Financing U.S. exports is frequently listed as the greatest problem for small business exporters and for large firms as well. Selling for cash in advance to foreign markets has become less and less competitive. In some countries it is not possible to do. While the Export-Import Bank of the United States has provided some new incentives to small business exporters, it still has not provided enough incentive for commercial banks to finance small export transactions profitably. Likewise, the Small Business Administration (SBA) has admirably developed a window to finance the working capital for producing exports. However, the actual number of financed transactions remain small because of the required paperwork and lack of sufficient incentive to banks. The U.S. and Foreign Commercial Service has worked with four states in the Midwest to develop a State Export-Import Bank to supplement, not replace, the guarantee financing of the Export-Import Bank of the United States and SBA. Work has begun with the State of Texas to introduce legislation which would authorize the creation of such a state bank. It is hoped this will be enacted in the next session of the Texas Legislature.

The District Office in Dallas has been most fortunate to have the general support of the community behind its efforts. We have been supported by Members of Congress in supplying assistance and information to constituents. While our mission is clearly defined in an Annual Work Plan developed each year targeting the refined universe of companies we feel has the greatest potential and interest in exporting, we provide information and educational programs to the public to the limit of our resources. Yet, we are fully aware that there are still companies who do not know we exist or how we can avail our services to them.

While there are other parts of the International Trade Administration with enforcement responsibilities, the U.S. and Foreign Commercial Service is an assistance arm of the Commerce Department to assist U.S. business develop and expand its markets for U.S. products abroad. Firms wishing to pursue exports should contact the U.S. and Foreign Commercial Service District Office at 214/767-0542 for additional information and assistance.

Mr. SKELTON. Thank you, Mr. Stiles. Mr. Murphy.

TESTIMONY OF WAYNE E. MURPHY, ASSOCIATE DIRECTOR, MID-AMERICA TRADE ADJUSTMENT ASSISTANCE CENTER

Mr. MURPHY. Mr. Chairman, Congressman Vandergriff, Congressman Stenholm, staff, and ladies and gentlemen, before I introduce myself, I'd like to recommend this book to anyone interested in exporting called Washington's Best Kept Secrets. It has every organization you ever wanted to know about that has anything to do with exporting, except the Trade Adjustment Assistance Program.

I'm with the Mid-America Trade Adjustment Assistance Center. I'm out of our Fort Worth office. There are 13 trade adjustment assistance centers located around the country. The Mid-America TAAC operates in six States, including Texas, Louisiana, Missouri, Arkansas, Kansas, and Oklahoma.

Our organization was set up to operate the Trade Adjustment Assistance Program, a program set up to help manufacturing companies that have lost business due to import competition. When companies fail due to foreign competition, there is a domino effect. Companies lose revenue, workers lose jobs, suppliers of raw materials and components lose markets, retail and wholesale business contracts and communities lose tax revenues.

Our purpose is not to set up trade tariffs, not to impede imports in any way; it is simply to help U.S. companies that have lost business due to the U.S. policy of free trade, and to help them keep their employees employed in a continuing business.

Although the trade adjustment assistance program is not designed specifically for small businesses, many, if not most, of the firms with which we work are small businesses. The basic product that the trade adjustment assistance center provides, if I may call it TAAC for short, is business consulting.

The process involves a diagnostic analysis of the firm's entire business operations in the areas of management, marketing, production and finance. From that, we work with management to develop business plans, and the business plan is, of course, to help them have essentially a turn-around situation and identify the specific steps they need to implement to make that turn around.

This work is performed on a cost share basis with the U.S. Government providing up to 75 percent of the cost of those business consulting services to the company.

There is also currently loan authorization in the trade adjustment assistance program providing for direct loans up to $1 million and loan guarantees up to $13 million. I understand the House has passed on the legislation for funding for next year, allowing for loan guarantees but not direct loans. The Senate has not passed it yet.

An example of the type of work we do with small companies is in the area of product development. I'd like to mention a small Texas company in the southern part of the State which is in the electronic equipment business, and, yes, electronics have been hurt by imports.

One of the things they really needed was product development. We, on a cost-share basis, hired a product development engineer. He went to the firm's plant and developed a product. As a result of that, a major U.S. company was so impressed with the product that they bought this company and here we have a firm that was virtually on the edge of going out of business—and within the next couple of years, probably would have; all those people would have been unemployed in southern Texas. As a result of the work we did with them, a major corporation bought them and now they have increased employment, as a matter of fact.

Another area that I'd like to mention is in the area of a small business garment manufacturing firm which had lost its major customer due to the fact that this customer decided to source its blouses from offshore. This firm had relied on this client's business which represented 80 percent of their business, they had no idea how to market their product or anything. They also had great production problems, of which they were not aware. We have subsequently hired a business consultant who is an expert in the garment industry. He was formerly president of a large garment manufacturing company in the Midwest. He's now in Texas working with this garment manufacturer. The firm now is generating a profit margin and has hired additional people and will increase their sales by 25 percent.

One of the major areas in which we work is marketing; this is a major problem area for small businesses. One of the best areas that we can help small businesses in is the area of international marketing. Many small businesses don't have the financial, nor personnel, resources available to them to develop international marketing—(a) data base, (b) how to do it, and (c) actually doing it.

We are currently working with a small business manufacturer of fasteners down in Houston area. They have annual sales of over $14 million. They lost a substantial amount of their business due to Japanese imports. In addition to helping them in their production area and other areas, we have hired a marketing consultant who has gone in there and developed a new marketing plan for them nationwide and also developed, as part of that, a major export marketing effort.

What the TAAC does to help small businesses: We would want to work with small businesses—and do work with them—in a similar manner as this last example. We are referring leads, of course, to our good friends that are associated with ITA, Carmon Stiles' organization, but their staff simply doesn't have the manpower, resources in order to dedicate the kind of time that an international marketing specialist can dedicate. We are in a position to work with the small businesses with an international marketing consultant with the U.S. Government paying up to 75 percent of the cost, which helps a great deal for the small business which is strapped for funds, doesn't have much collateral, the bank is on their back because they are a payment behind on loans—many scenarios like that.

The last area is problems encountered with Federal regulations. I would like to restrict my comments primarily to the areas of the trade adjustment assistance program as they affect small businesses.

First problem is the length of time required for a firm to qualify for assistance. By the law, there is a 60-day period in which the bureaucrats in Washington have to look at a petition for a firm to qualify for assistance under the Trade Adjustment Assistance Program. OTAA's certification division is currently taking longer than that—up to 120 days.

On top of this 60-day period, there is a 5-day period for acceptance of the proposal, and on top of that, we have to fill out the petition forms. Most small businesses (a) don't have the personnel resources or time to dedicate to that—filling out a petition—which is another bureaucratic form, OK, and (b) it's not set up to easily take the company's business data and transfer that over to the form.

So, we're looking at quite a period there, usually 3 or 4 months before the firm is even certified so that we can work with them. When we begin working with them, that's another story. That's one major problem, and the recommendation for solution, I would urge the Small Business Committee to do what they can to change that legislation so that the local trade adjustment assistance centers could certify to the Deputy Assistant Secretary for Trade Adjustment Assistance that these firms do, in fact, qualify and let's go on; let's not waste any time.

Another area is the length of time involved in obtaining a loan for this program. Just as in every other Government agency, the qualifying criteria for obtaining a loan under the trade adjustment assistance has tightened substantially.

This length of time can take from 6 months to 1 year. Small businesses that are already in trouble by definition in order to qualify for this program, don't need to have to wait that length of time to find out if they are going to be able to obtain a loan.

The last area is the cost of the trade adjustment assistance to small businesses. Firms pay 25 percent of the cost, minimum of 25 percent of the cost, of this work. We could go in, in many cases, with small businesses, go directly to the plan, that is, not go through the approval process. This would help small businesses to a great extent.

[Mr. Murphy's prepared statement with attachments follows:]

Prepared Statement of Wayne E. Murphy, Associate Director, Mid-American Trade Adjustment Assistance Center

I. What TAAC does.

Mid-America TAAC operates, under a contract with the U.S. Department of Commerce, a program called Trade Adjustment Assistance (TAA). The Fort Worth office is a subsidiary of the regional office in Little Rock, Arkansas which comes under the auspices of the University of Arkansas at Little Rock. The geographic area covered by Mid-America TAAC includes: Texas, Missouri, Oklahoma, Louisiana, Kansas and Arkansas.

The purpose of the program is to help U.S. manufacturers which have lost business due to import competition. Basically, if a firm has a decline in sales between the two most recent 12-month periods and a significant cause of this decline is import competition, then the firm may qualify for the program.

Although the TAA program was not designed specifically for small businesses, many of the firms which qualify are small businesses.

Business consulting is the primary service provided to qualified firms. The process includes performing a diagnostic analysis of a firm's entire operation, developing a business plan and then implementing the steps identified in the business plan. This work is performed on a cost-share basis with the U.S. government paying up to 75 percent of the cost of these services.

There is also Loan authorization under the TAA program. Currently, firms may apply for direct loans up to $1,000,000 and Loan guaranties up to $3,000,000.

Attached is: "Excerpts from Title II of the Trade Act of 1974."

Some examples of work the TAAC has done with Texas firms are:

1. In the area of PRODUCT DEVELOPMENT

   One of the major strategies a certain Texas small business manufacturer of electronic equipment needed to implement was to improve its product. A $1.5MM loan was obtained for working capital. A product development engineer was hired on a consulting basis (with the U.S. government paying 75 percent of the cost) to redesign the firm's product. The new, improved product was so attractive that a major U.S. company bought this firm and paid off the loan.

Prior to receiving Trade Adjustment Assistance this firm had experienced declining sales, had laid off workers and faced the possibility of failure.

2. In the area of PRODUCTION.

A certain small business garment manufacturing firm in Texas lost its major customer when that customer decided to source all blouses offshore. Fortunately, the firm was able to obtain some additional customers, but, its production process did not allow the firm to have a sufficient profit margin due to inefficiencies. A professional apparel consultant was contracted with to analyze the firm's problems and develop a plan for recovery. As a result, today the plan is being implemented by a former president of a large garment manufacturer, and it appears that the firm will survive - as a matter of fact, it appears that the firm will show a profit by the end of the year.

In addition to allowing the firm to maintain its workforce, the firm has increased its number of workers by approximately 25 percent. This has occurred in a geographic area of Texas where just a few months prior to this a major garment manufacturer had laid off some 1,000 workers.

3. In the area of MARKETING

A certain small business manufacturer of fasteners with sales of over $14MM had lost a substantial amount of sales to Japanese firms. In addition to several other functional areas, one of the major problems with the firm's competitiveness was a lack of marketing expertise. The firm had experienced above average annual growth rates in sales up until 1983, but when faced with prices from Japan which were below the firm's cost of production, the firm was not certain as to what to do. After a diagnostic analysis and the development of a business plan by the Mid-America TAAC, the firm has cut costs substantially and will be entering into an agreement with a consulting firm to establish a marketing program for the firm. A major thrust of this marketing effort will be to establish where export markets exist and to identify for the firm how to get into thee export markets.

By helping management of the firm to focus on the areas of needed improvement, the Mid-America TAAC has assisted in preventing the firm from going out of business (and having to lay off over 100 employees), and it appears that the firm is now operating on a profitable basis allowing it to increase employment in the near future.

Mid-America has worked with many other firms in a similar fashion in the other states in its region. For instance, in Missouri, the implementation phase of the Trade Adjustment Assistance being provided to a garment manufacturer employing over 200 people, is just being completed - it involved a contract with an apparel consultant totaling over $150,000.00.

II. What TAAC can do to help Small Businesses to export.

Many of the firms which qualify for Trade Adjustment Assistance also qualify as a small business as defined by the SBA (since manufacturing firms with up to 1500 employees may qualify as a small business).

Just as the TAAC is working with the Texas firm identified above in helping it develop its export potential, we can assist small businesses in their export efforts. We would refer to the International Trade Administration, Export Specialists, any companies which are interested in getting into exporting. The ITA has a wealth of information on exporting but hasn't the personnel resources to dedicate to an individual firm in a manner as an international marketing consultant can.

Most small businesses have neither the financial resources, nor the personnel expertise, to export. The answer for most small businesses is some form of an Export Management Company.

III. PROBLEMS ENCOUNTERED WITH FEDERAL REGULATIONS AND RECOMMENDATIONS FOR IMPROVEMENT.

The comments in this section are restricted to problems and possible solutions regarding the Trade Adjustment Assistance Program as it affects the TAAC's ability to respond to the needs of small businesses.

1. PROBLEM: Length of time required to qualify for assistance.

   DISCUSSION: Each firm must be "certified" as hurt by imports prior to the TAAC beginning any meaningful work with them. The law requires the Office of Trade Adjustment Assistance (OTAA) to make a determination within 60 days (five days are allowed for "acceptance" of the petition prior to the 60-day clock beginning). The Certification Division of OTAA has been going far beyond this mandated time limit for many months - it appears that they are running 90 to 120 days.

   Since a firm must be in some trouble to get certified, it seems evident that the sooner assistance can begin, the more beneficial it is for the firm.

   The problems created by the length of time necessary to get a firm "certified" had been a problem - especially for small firms - even prior to the current crisis created by the Certification Division's breaking the law.

   RECOMMENDATION FOR SOLUTION: This problem could be circumvented almost entirely if the TAAC were to be charged with the responsibility of determining that the firm is eligible - of petitions submitted, more that 95 percent of the firms are eventually certified (and those firms on which there were any doubt could be handled on an exception basis).

   In any event, the current 60-day law has no meaning since OTAA's Certification Division can break it without the fear of any repraisal (since there is no penalty in the law for going over the 60-day limit).

2. PROBLEM: The length of time to obtain a loan under the Trade Act of 1974, and the stringent requirements which must be met by firms in order to receive a loan.

   DISCUSSION: Many of the firms which have needed loans under the Trade Adjustment Assistance (TAA) Program qualify as small businesses. The loan limit for the SBA program ($500,000 on a guaranty basis) often represents less than the firm needs to borrow; under the TAA Program, loan guaranties are

authorized up to $3,000,000. The SBA has, in most cases in the past, been very responsive in terms of length of time needed for a decision (although the SBA's criteria for qualification has been made more stringent over the past few years also). The responsiveness of the Financial Division of OTAA (referring primarily to the time period since 1978 when the TAAC's were formed nationally) has been less than acceptable - they have taken from 6 months to up to one year to come to a determination (please note that the firm has probably already been in the TAA process for some 6 months prior to being allowed to apply for the loan). Most firms cannot last this length of time (especially considering that to apply for a loan, the firm must be turned down by two banks) and those that do last, have certainly suffered needlessly.

RECOMMENDATION FOR SOLUTION: Legislative solutions to this problem are far more difficult than to the previous one. One must, of course, note that the Federal Government has become more hesitant to use government-backed loans, however, if the loan program under TAA is to exist at all, it must be responsive in terms of time-frame, as well as, in terms of the criteria upon which a loan guaranty is granted (unrealistic requirements in the areas of collateral, historic performance of the firm, inflexible payback and upon the guarantor banks are currently applied).

It is believed that neither the time-frame problem, nor the demanding criteria imposed by OTAA, can be solved by legislation. It is our opinion that the Financial Division should be totally revised, or eliminated.

3. PROBLEM: Cost of TAA to small businesses.

DISCUSSION: The firms pay 25 percent of the cost of the TAA work. Currently, firms (regardless of size) must have a diagnostic analysis of their operation performed by a TAAC (or other consultant) and develop a "recovery" plan prior to the implementation of changes needed by the firm. The cost of the analysis and plan can run from just under $9,000 to over $20,000 (with the firm paying out of its pocket $2,250 to $5,000 of that respectively). The "plan" must be approved by OTAA. Considering the "time" cost and the actual dollar cost to a small business, this is somewhat impractical.

RECOMMENDATION FOR SOLUTION: The solution to this problem is relatively simple. If the estimated "implementation" assistance is under $50,000, then let the TAAC (which is staffed with experienced business people) write a brief diagnostic analysis and plan and proceed immediately with the implementation.

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EXCERPTS

from

Title II

of the

Trade Act of 1974

U.S. DEPARTMENT OF COMMERCE
Economic Development Administration

Public Law 93-618
93rd Congress, H. R. 10710
January 3, 1975

An Act

To promote the development of an open, nondiscriminatory, and fair world economic system, to stimulate fair and free competition between the United States and foreign nations, to foster the economic growth of, and full employment in, the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act, with the following table of contents, may be cited as the "Trade Act of 1974". Trade Act of 1974. 19 USC 2101.

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CHAPTER 3—ADJUSTMENT ASSISTANCE FOR FIRMS

SEC. 251. PETITIONS AND DETERMINATIONS. 19 USC 2341.

(a) A petition for a certification of eligibility to apply for adjustment assistance under this chapter may be filed with the Secretary of Commerce (hereinafter in this chapter referred to as the "Secretary") by a firm or its representative. Upon receipt of the petition, the Secretary shall promptly publish notice in the Federal Register that he has received the petition and initiated an investigation. Publication in Federal Register.

(b) If the petitioner, or any other person, organization, or group found by the Secretary to have a substantial interest in the proceedings, submits not later than 10 days after the date of the Secretary's publication under subsection (a) a request for a hearing, the Secretary shall provide for a public hearing and afford such interested persons an opportunity to be present, to produce evidence, and to be heard.

(c) The Secretary shall certify a firm as eligible to apply for adjustment assistance under this chapter if he determines—

(1) that a significant number or proportion of the workers in such firm have become totally or partially separated, or are threatened to become totally or partially separated,

(2) that sales or production, or both, of such firm have decreased absolutely, and

(3) that increases of imports of articles like or directly competitive with articles produced by such firm contributed importantly to such total or partial separation, or threat thereof, and to such decline in sales or production.

For purposes of paragraph (3), the term "contributed importantly" means a cause which is important but not necessarily more important than any other cause. "Contributed importantly."

(d) A determination shall be made by the Secretary as soon as possible after the date on which the petition is filed under this section, but in any event not later than 60 days after that date.

SEC. 252. APPROVAL OF ADJUSTMENT PROPOSALS. 19 USC 2342.

(a) A firm certified under section 251 as eligible to apply for adjustment assistance may, at any time within 2 years after the date of such certification, file an application with the Secretary for adjustment assistance under this chapter. Such application shall include a proposal for the economic adjustment of such firm. Filing of application.

(b)(1) Adjustment assistance under this chapter consists of technical assistance and financial assistance, which may be furnished singly or in combination. The Secretary shall approve a firm's application for adjustment assistance only if he determines— Approval conditions.

(A) that the firm has no reasonable access to financing through the private capital market, and

(B) that the firm's adjustment proposal—

(i) is reasonably calculated materially to contribute to the economic adjustment of the firm,

(ii) gives adequate consideration to the interests of the workers of such firm, and

(iii) demonstrates that the firm will make all reasonable efforts to use its own resources for economic development.

(2) The Secretary shall make a determination as soon as possible after the date on which an application is filed under this section, but in no event later than 60 days after such date.

Technical assistance.

(c) In order to assist a firm which has been certified as eligible to apply for adjustment assistance under this chapter in preparing a viable adjustment proposal, the Secretary may furnish technical assistance to such firm.

Termination; publication in Federal Register.

(d) Whenever the Secretary determines that any firm no longer requires assistance under this chapter, he shall terminate the certification of eligibility of such firm and promptly have notice of such termination published in the Federal Register. Such termination shall take effect on the termination date specified by the Secretary.

19 USC 2343.

SEC. 253. TECHNICAL ASSISTANCE.

(a) The technical assistance furnished under this chapter shall consist of—

(1) assistance to the firm in developing a proposal for its economic adjustment,

(2) assistance in the implementation of such a proposal, or

(3) both.

Terms and conditions.

(b) The Secretary may provide to a firm certified under section 251, on such terms and conditions as he determines to be appropriate, such technical assistance as in his judgment will carry out the purposes of this chapter with respect to such firm.

(c) The Secretary shall furnish technical assistance under this chapter through existing agencies and through private individuals, firms, and institutions. In the case of assistance furnished through private individuals, firms, and institutions (including private consulting services), the Secretary may share the cost thereof (but not more than 75 percent of such cost may be borne by the United States).

19 USC 2344.

SEC. 254. FINANCIAL ASSISTANCE.

Terms and conditions.

(a) The Secretary may provide to a firm, on such terms and conditions as he determines to be appropriate, such financial assistance in the form of direct loans or guarantees of loans as in his judgment will materially contribute to the economic adjustment of the firm. The assumption of an outstanding indebtedness of the firm, with or without recourse, shall be considered to be the making of a loan for purposes of this section.

(b) Loans or guarantees of loans shall be made under this chapter only for the purpose of making funds available to the firm—

(1) for acquisition, construction, installation, modernization, development, conversion, or expansion of land, plant, buildings, equipment, facilities, or machinery, or

(2) to supply such working capital as may be necessary to enable the firm to implement its adjustment proposal.

Direct loans, restriction.

(c) To the extent that loan funds can be obtained from private sources (with or without a guarantee) at the rate provided in the first sentence of section 255(b), no direct loan shall be provided to a firm under this chapter.

19 USC 2345.

SEC. 255. CONDITIONS FOR FINANCIAL ASSISTANCE.

(a) No financial assistance shall be provided under this chapter unless the Secretary determines—

(1) that the funds required are not available from the firm's own resources; and

(2) that there is reasonable assurance of repayment of the loan.

(b) The rate of interest on loans which are guaranteed under this chapter shall be no higher than the maximum interest per annum that a participating financial institution may establish on guaranteed loans made pursuant to section 7(a) of the Small Business Act (15 U.S.C. 636(a)). The rate of interest on direct loans made under this chapter shall be (i) a rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity that are comparable to the average maturities of such loans, adjusted to the nearest one-eighth of 1 percent, plus (ii) an amount adequate in the judgment of the Secretary to cover administrative costs and probable losses under the program. Interest rate.

(c) The Secretary shall make no loan or guarantee of a loan having a maturity in excess of 25 years, including renewals and extensions. Such limitation on maturities shall not, however, apply— Maturities, limitation.

(1) to securities or obligations received by the Secretary as claimant in bankruptcy or equitable reorganization, or as creditor in other proceedings attendant upon insolvency of the obligor, or

(2) to an extension or renewal for an additional period not exceeding 10 years, if the Secretary determines that such extension or renewal is reasonably necessary for the orderly liquidation of the loan.

(d) In making guarantees of loans, and in making direct loans, the Secretary shall give priority to firms which are small within the meaning of the Small Business Act (and regulations promulgated thereunder). Priority. 15 USC 631 note.

(e) No loan shall be guaranteed by the Secretary in an amount which exceeds 90 percent of the balance of the loan outstanding.

(f) The Secretary shall maintain operating reserves with respect to anticipated claims under guarantees made under this chapter. Such reserves shall be considered to constitute obligations for purposes of section 1311 of the Supplemental Appropriation Act, 1955 (31 U.S.C. 200). Operating reserves.

(g) The Secretary may charge a fee to a lender which makes a loan guaranteed under this chapter in such amount as is necessary to cover the cost of administration of such guarantee. Fee.

(h)(1) The aggregate amount of loans made to any firm which are guaranteed under this chapter and which are outstanding at any time shall not exceed $3,000,000. Limitations.

(2) The aggregate amount of direct loans made to any firm under this chapter which are outstanding at any time shall not exceed $1,000,000.

SEC. 256. DELEGATION OF FUNCTIONS TO SMALL BUSINESS ADMINISTRATION; AUTHORIZATION OF APPROPRIATIONS. 19 USC 2346.

(a) In the case of any firm which is small (within the meaning of the Small Business Act and regulations promulgated thereunder), the Secretary may delegate all of his functions under this chapter (other than the functions under sections 251 and 252(d) with respect to the certification of eligibility and section 264) to the Administrator of the Small Business Administration.

(b) There are hereby authorized to be appropriated to the Secretary such sums as may be necessary from time to time to carry out his

functions under this chapter in connection with furnishing adjustment assistance to firms, which sums are authorized to be appropriated to remain available until expended.

19 USC 1912. (c) The unexpended balances of appropriations authorized by section 312(d) of the Trade Expansion Act of 1962 are transferred to the Secretary to carry out his functions under this chapter.

19 USC 2347. SEC. 257. ADMINISTRATION OF FINANCIAL ASSISTANCE.

(a) In making and administering guarantees and loans under section 254, the Secretary may—

(1) require security for any such guarantee or loan, and enforce, waive, or subordinate such security;

(2) assign or sell at public or private sale, or otherwise dispose of, upon such terms and conditions and for such consideration as he shall determine to be reasonable, any evidence of debt, contract, claim, personal property, or security assigned to or held by him in connection with such guarantees or loans, and collect, compromise, and obtain deficiency judgments with respect to all obligations assigned to or held by him in connection with such guarantees or loans until such time as such obligations may be referred to the Attorney General for suit or collection;

(3) renovate, improve, modernize, complete, insure, rent, sell, or otherwise deal with, upon such terms and conditions and for such consideration as he shall determine to be reasonable, any real or personal property conveyed to or otherwise acquired by him in connection with such guarantees or loans;

(4) acquire, hold, transfer, release, or convey any real or personal property or any interest therein whenever deemed necessary or appropriate, and execute all legal documents for such purposes; and

(5) exercise all such other powers and take all such other acts as may be necessary or incidental to the carrying out of functions pursuant to section 254.

(b) Any mortgage acquired as security under subsection (a) shall be recorded under applicable State law.

(c) All repayments of loans, payments of interest, and other receipts arising out of transactions entered into by the Secretary pursuant to this chapter, shall be available for financing functions performed under this chapter, including administrative expenses in connection with such functions.

19 USC 2348. SEC. 258. PROTECTIVE PROVISIONS.

Recordkeeping. (a) Each recipient of adjustment assistance under this chapter shall keep records which fully disclose the amount and disposition by such recipient of the proceeds, if any, of such adjustment assistance, and which will facilitate an effective audit. The recipient shall also keep such other records as the Secretary may prescribe.

GAO audit. (b) The Secretary and the Comptroller General of the United States shall have access for the purpose of audit and examination to any books, documents, papers, and records of the recipient pertaining to adjustment assistance under this chapter.

(c) No adjustment assistance under this chapter shall be extended to any firm unless the owners, partners, or officers certify to the Secretary—

(1) the names of any attorneys, agents, and other persons engaged by or on behalf of the firm for the purpose of expediting applications for such adjustment assistance; and

(2) the fees paid or to be paid to any such person.

(d) No financial assistance shall be provided to any firm under this chapter unless the owners, partners, or officers shall execute an agreement binding them and the firm for a period of 2 years after such financial assistance is provided, to refrain from employing, tendering any office or employment to, or retaining for professional services any person who, on the date such assistance or any part thereof was provided, or within 1 year prior thereto, shall have served as an officer, attorney, agent, or employee occupying a position or engaging in activities which the Secretary shall have determined involve discretion with respect to the provision of such financial assistance.

SEC. 259. PENALTIES. 19 USC 2349.

Whoever makes a false statement of a material fact knowing it to be false, or knowingly fails to disclose a material fact, or whoever willfully overvalues any security, for the purpose of influencing in any way a determination under this chapter, or for the purpose of obtaining money, property, or anything of value under this chapter, shall be fined not more than $5,000 or imprisoned for not more than 2 years, or both.

SEC. 260. SUITS. 19 USC 2350.

In providing technical and financial assistance under this chapter the Secretary may sue and be sued in any court of record of a State having general jurisdiction or in any United States district court, and jurisdiction is conferred upon such district court to determine such controversies without regard to the amount in controversy; but no attachment, injunction, garnishment, or other similar process, mesne or final, shall be issued against him or his property. Nothing in this section shall be construed to except the activities pursuant to sections 253 and 254 from the application of sections 516, 547, and 2679 of title 28 of the United States Code.

SEC. 261. DEFINITIONS. 19 USC 2351.

For purposes of this chapter, the term "firm" includes an individual proprietorship, partnership, joint venture, association, corporation (including a development corporation), business trust, cooperative, trustee in bankruptcy, and receiver under decree of any court. A firm, together with any predecessor or successor firm, or any affiliated firm controlled or substantially beneficially owned by substantially the same persons, may be considered a single firm where necessary to prevent unjustifiable benefits.

SEC. 262. REGULATIONS. 19 USC 2352.

The Secretary shall prescribe such regulations as may be necessary to carry out the provisions of this chapter.

SEC. 263. TRANSITIONAL PROVISIONS. 19 USC 2353.

(a) In any case where a firm or its representative has filed a petition with the International Trade Commission (hereafter in this chapter referred to as the "Commission") under section 301(a)(2) of the Trade Expansion Act of 1962, and the Commission has not made its determination under section 301(c) of that Act before the effective date of this chapter, such firm may reapply under the provisions of section 251 of this Act. In order to assist the Secretary in making his determination under such section 251 with respect to such firm, the Commission shall make available to the Secretary, on request, data it has acquired with respect to its investigation. 19 USC 1901.

(b) If, on the effective date of this chapter, the President (or his delegate) has not taken action under section 302(c) of the Trade
9 USC 1902. Expansion Act of 1962 with respect to a report of the Commission
9 USC 1901. containing an affirmative finding under section 301(c) of that Act or a report with respect to which an equal number of Commissioners are evenly divided, the Secretary may treat such report as a certification of eligibility made under section 251 of this Act on the effective date of this chapter.

(c) Any certification of eligibility of a firm under section 302(c)
9 USC 1902. of the Trade Expansion Act of 1962 made before the effective date of this chapter shall be treated as a certification of eligibility made under section 251 of this Act on the date of the enactment of this Act; except that any firm whose adjustment proposal was certified
9 USC 1911. under section 311 of the Trade Expansion Act of 1962 before the effective date of this chapter may receive adjustment assistance at the level set forth in such certified proposal.

9 USC 2354. **SEC. 264. STUDY BY SECRETARY OF COMMERCE WHEN INTERNATIONAL TRADE COMMISSION BEGINS INVESTIGATION; ACTION WHERE THERE IS AFFIRMATIVE FINDING.**

(a) Whenever the Commission begins an investigation under section 201 with respect to an industry, the Commission shall immediately notify the Secretary of such investigation, and the Secretary shall immediately begin a study of—

(1) the number of firms in the domestic industry producing the like or directly competitive article which have been or are likely to be certified as eligible for adjustment assistance, and

(2) the extent to which the orderly adjustment of such firms to the import competition may be facilitated through the use of existing programs.

eport to resident. (b) The report of the Secretary of the study under subsection (a) shall be made to the President not later than 15 days after the day on
nte, p. 2011. which the Commission makes its report under section 201. Upon making its report to the President, the Secretary shall also promptly make
ublication n Federal egister. it public (with the exception of information which the Secretary determines to be confidential) and shall have a summary of it published in the Federal Register.

(c) Whenever the Commission makes an affirmative finding under section 201(b) that increased imports are a substantial cause of serious injury or threat thereof with respect to an industry, the Secretary shall make available, to the extent feasible, full information to the firms in such industry about programs which may facilitate the orderly adjustment to import competition of such firms, and he shall provide assistance in the preparation and processing of petitions and applications of such firms for program benefits.

CHAPTER 4—ADJUSTMENT ASSISTANCE FOR COMMUNITIES

9 USC 2371. **SEC. 271. PETITIONS AND DETERMINATIONS.**

(a) A petition for certification of eligibility for adjustment assistance under this chapter may be filed with the Secretary of Commerce (hereinafter in this chapter referred to as the "Secretary") by a political subdivision of a State (hereinafter in this chapter referred to as a "community"), by a group of such communities, or by the Governor of a State on behalf of such communities. Upon receipt of the petition, the

Secretary shall promptly publish notice in the Federal Register that he has received the petition and initiated an investigation. Publication in Federal Register.

(b) If the petitioner, or any other person found by the Secretary to have a substantial interest in the proceedings, submits not later than 10 days after the Secretary's publication of notice under subsection (a) a request for a hearing the Secretary shall provide for a public hearing and afford such interested persons an opportunity to be present, to produce evidence, and to be heard. Hearing.

(c) The Secretary shall certify a community as eligible for adjustment assistance under this chapter if he determines—

(1) that a significant number or proportion of the workers in the trade impacted area in which such community is located have become totally or partially separated, or are threatened to become totally or partially separated,

(2) that sales or production, or both, of firms, or subdivisions of firms, located in the trade impacted area specified in paragraph (1) have decreased absolutely, and

(3) that increases of imports of articles like or directly competitive with articles produced by firms, or subdivisions of firms, located in the trade impacted area specified in paragraph (1) or that the transfer of firms or subdivisions of firms located in such area to foreign countries have contributed importantly to the total or partial separations, or threats thereof, described in paragraph (1) and to the decline in sales or production described in paragraph (2).

For purposes of paragraph (3), the term "contributed importantly" means a cause which is important but not necessarily more important than any other cause. "Contributed importantly."

(d) As soon as possible after the date on which a petition is filed under this section, but in any event not later than 60 days after that date, the Secretary shall determine whether the petitioning community, or group of communities, meets the requirements of subsection (c) and shall issue a certification of eligibility for assistance under this chapter covering any community located in the same trade impacted area in which the petitioner is located which meets such requirements.

(e) The Secretary, after consulting the Secretary of Labor, shall establish the size and boundaries of each trade impacted area, considering the criteria in subsection (c) and, to the extent they are relevant, the factors specified as criteria for redevelopment areas under section 401 of the Public Works and Economic Development Act of 1965. 42 USC 3161.

(f) If the Secretary determines that a community requires no additional assistance under this chapter, he shall terminate the certification of eligibility of such community and promptly have notice of such termination published in the Federal Register. Such termination shall take effect on the termination date specified by the Secretary. Certification of eligibility, termination; publication in Federal Register.

SEC. 272. TRADE IMPACTED AREA COUNCILS. 19 USC 2372.

(a) Within 60 days after a community is certified under section 271, the Secretary shall send his representatives to the trade impacted area in which such community is located to inform officials of communities and other residents of such area about benefits available to them under this Act and to assist such officials and residents in establishing a Trade Impacted Area Council for Adjustment Assistance (hereinafter in this chapter referred to as the "Council") for such area. Trade Impacted Area Council for Adjustment Assistance. Establishment.

(b) (1) The Secretary shall establish, subject to the last sentence of

this paragraph, a Council for each trade impacted area in which one or more communities are certified under section 271. Such Council shall—

(A) develop a proposal for an adjustment assistance plan for the economic rejuvenation of certified communities in its trade impacted area, and

(B) coordinate community action under the adjustment assistance plan, as approved by the Secretary.

If an appropriate entity for purposes of performing the functions specified in subparagraphs (A) and (B) already exists in such area, then the Secretary may designate such entity as the Council for such area.

(2) Such Council shall include representatives of certified communities, industry, labor, and the general public located in the trade impacted area covered by the Council.

(c) Upon application by a Council established under subsection (b), the Secretary is authorized to make grants to such Council for maintaining an appropriate professional and clerical staff. No grant shall be made to a Council to maintain staff after the period which ends 2 years after the date on which such Council is established or designated.

(d) A Council established under this section may file an application with the Secretary for adjustment assistance under this chapter. Such application shall include the Council's proposal for an adjustment assistance plan for the communities in its trade impacted area.

13 USC 2373.

SEC. 273. PROGRAM BENEFITS.

(a) Adjustment assistance under this chapter consists of—

(1) all forms of assistance, other than loan guarantees, which are provided to a redevelopment area under the Public Works and Economic Development Act of 1965, and

42 USC 3121 note.

(2) the loan guarantee program described in subsection (d).

(b) No adjustment assistance may be extended to any community or person in a trade impacted area under this chapter unless the Secretary approves the adjustment assistance plan submitted to him under section 272(d).

(c) For purposes of the Public Works and Economic Development Act of 1965—

(1) a trade impacted area for which an adjustment assistance plan has been approved under section 272(d) shall be treated as a redevelopment area, except that—

(A) no loan guarantees may be made to any person under such Act; and

(B) no loan or grant may be made to any recipient in such an area after September 30, 1980, and

(2) approval of an adjustment assistance plan submitted under section 272(d) shall be treated as approval of an overall economic development program under section 202(b)(10) of such Act.

42 USC 3142.

(d) The Secretary is authorized to guarantee loans for—

(1) the acquisition, construction, installation, modernization, development, conversion, or expansion of land, plant, buildings, equipment, facilities, or machinery, and

(2) working capital,

made to private borrowers by private lending institutions in connection with projects in trade impacted areas subject to the same terms and conditions to which loan guarantees are subject under section 202 of the Public Works and Economic Development Act of 1965, including record and audit requirements and penalties, except that—

(1) no new loan guarantee may be made under this subsection after September 30, 1982,

(2) a loan guarantee may be made for the entire amount of the outstanding unpaid balance of such loan, and

(3) no more than 20 percent of the amount of loan guarantees made under this subsection by the United States may be made in one State.

(e) The Governor of the State, the authorized representative of the community, or the Governor of the State and the authorized representative of the community, in which an applicant for a loan guarantee under subsection (b) is located may enter into an agreement with the Secretary which provides that such State or such community, or that such State and such community, will pay not to exceed one-half of the amount of any liability which arises on a loan guarantee made under subsection (d) if the State in which the applicant for such guarantee is located has established by law a program approved by the Secretary for the purposes of this section.

(f)(1) When considering whether to guarantee a loan to a corporation which is otherwise qualified for the purposes of subsection (d), the Secretary shall give preference to a corporation which agrees with respect to such loan to fulfill the following requirements—

(A) 25 percent of the principal amount of the loan is paid by the lender to a qualified trust established under an employee stock ownership plan established and maintained by the recipient corporation, by a parent or subsidiary of such corporation, or by several corporations including the recipient corporation,

(B) the employee stock ownership plan meets the requirements of this subsection, and

(C) the agreement among the recipient corporation, the lender, and the qualified trust relating to the loan meets the requirements of this section.

(2) An employee stock ownership plan does not meet the requirements of this subsection unless the governing instrument of the plan provides that—

(A) the amount of the loan paid under paragraph (1)(A) to the qualified trust will be used to purchase qualified employer securities,

(B) the qualified trust will repay to the lender the amount of such loan, together with the interest thereon, out of amounts contributed to the trust by the recipient corporation, and

(C) from time to time, as the qualified trust repays such amount, the trust will allocate qualified employer securities among the individual accounts of participants and their beneficiaries in accordance with the provisions of paragraph (4).

(3) The agreement among the recipient corporation, the lender, and the qualified trust does not meet the requirements of this subsection unless—

(A) it is unconditionally enforceable by any party against the others, jointly and severally,

(B) it provides that the liability of the qualified trust to repay loan amounts paid to the qualified trust may not, at any time, exceed an amount equal to the amount of contributions required under paragraph (2)(B) which are actually received by such trust,

(C) it provides that amounts received by the recipient corporation from the qualified trust for qualified employer securities purchased for the purpose of this subsection will be used exclu-

sively by the recipient corporation for those purposes for which it may use that portion of the loan paid directly to it by the lender,

(D) it provides that the recipient corporation may not reduce the amount of its equity capital during the one year period beginning on the date on which the qualified trust purchases qualified employer securities for purposes of this subsection, and

(E) it provides that the recipient corporation will make contributions to the qualified trust of not less than such amounts as are necessary for such trust to meet its obligation to make repayments of principal and interest on the amount of the loan received by the trust without regard to whether such contributions are deductible by the corporation under section 404 of the Internal Revenue Code of 1954 and without regard to any other amounts the recipient corporation is obligated under law to contribute to or under the employee stock ownership plan.

6 USC 404.

(4) At the close of each plan year, an employee stock ownership plan shall allocate to the accounts of participating employees that portion of the qualified employer securities the cost of which bears substantially the same ratio to the cost of all the qualified employer securities purchased under paragraph (2)(A) of this subsection as the amount of the loan principal and interest repaid by the qualified trust during that year bears to the total amount of the loan principal and interest payable by such trust during the term of such loan. Qualified employer securities allocated to the individual account of a participant during one plan year must bear substantially the same proportion to the amount of all such securities allocated to all participants in the plan as the amount of compensation paid to such participant bears to the total amount of compensation paid to all such participants during that year.

finitions.

(5) For purposes of this subsection, the term—

(A) "employee stock ownership plan" means a plan described in section 407(d)(6) of the Employee Retirement Income Security Act of 1974, section 4975(e)(7) of the Internal Revenue Code of 1954, and in section 102(5) of the Regional Rail Reorganization Act of 1973, which meets the requirements of title I of the Employee Retirement Income Security Act of 1974 and of part I of subchapter D of chapter 1 of such Code,

ite, p. 880.
ite, p. 971.
USC 702.
ite, p. 832.
USC 401.

(B) "qualified trust" means a trust established under an employee stock ownership plan and meeting the requirements of title I of the Employee Retirement Income Security Act of 1974 and of part I of subchapter D of chapter 1 of such Code,

(C) "qualified employer securities" means common stock issued by the recipient corporation or by a parent or subsidiary of such corporation with voting power and dividend rights no less favorable than the voting power and dividend rights on other common stock issued by the issuing corporation and with voting power being exercised by the participants in the employee stock ownership plan after it is allocated to their plan accounts, and

(D) "equity capital" means, with respect to the recipient corporation, the sum of its money and other property (in an amount equal to the adjusted basis of such property but disregarding adjustments made on account of depreciation or amortization made during the period described in paragraph (3)(D)), less the amount of its indebtedness.

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(g) The United States share of loan guarantees made under subsection (d) on loans which are outstanding at any time may not exceed $500,000,000.

SEC. 274. COMMUNITY ADJUSTMENT ASSISTANCE FUND AND AUTHORIZATION OF APPROPRIATIONS. 19 USC 2374.

(a) There is established on the books of the Treasury of the United States a revolving fund to be known as the Community Adjustment Assistance Fund. The fund shall consist of such amounts as may be deposited in it pursuant to the authorization in subsection (b) and any collections, repayments of loans, or other receipts received under the program established in section 273(a). Amounts in the fund may be used only to carry out the provisions of sections 272 and 273(b), including administrative costs. Amounts appropriated to the fund shall be available to the Secretary without fiscal year limitation. Upon liquidation of all remaining obligations, any balances remaining in the fund after September 30, 1980, shall be transferred to the general fund of the Treasury. Establishment. Transfer of funds.

(b) There are authorized to be appropriated to the Community Adjustment Assistance Fund, for the purpose of carrying out the provisions of sections 272 and 273(a), $100,000,000 for the fiscal year ending June 30, 1975, and such sums as may be necessary for the succeeding 7 fiscal years. Appropriation

(c) There are authorized to be appropriated to the Secretary such sums as may be necessary for carrying out the loan guarantee program under section 273(d).

CHAPTER 5—MISCELLANEOUS PROVISIONS

SEC. 280. GENERAL ACCOUNTING OFFICE REPORT. 19 USC 2391.

(a) The Comptroller General of the United States shall conduct a study of the adjustment assistance programs established under chapters 2, 3, and 4 of this title and shall report the results of such study to the Congress no later than January 31, 1980. Such report shall include an evaluation of— Study, report to Congress. Contents.

(1) the effectiveness of such programs in aiding workers, firms, and communities to adjust to changed economic conditions resulting from changes in the patterns of international trade; and

(2) the coordination of the administration of such programs and other Government programs which provide unemployment compensation and relief to depressed areas.

(b) In carrying out his responsibilities under this section, the Comptroller General shall, to the extent practical, avail himself of the assistance of the Departments of Labor and Commerce. The Secretaries of Labor and Commerce shall make available to the Comptroller General any assistance necessary for an effective evaluation of the adjustment assistance programs established under this title.

SEC. 281. COORDINATION. 19 USC 2392.

There is established the Adjustment Assistance Coordinating Committee to consist of a Deputy Special Trade Representative as Chairman, and the officials charged with adjustment assistance responsibilities of the Departments of Labor and Commerce and the Small Business Administration. It shall be the function of the Committee to coordinate the adjustment assistance policies, studies, and programs of the various agencies involved and to promote the efficient and effective delivery of adjustment assistance benefits. Adjustment Assistance Coordinating Committee. Establishment.

SEC. 282. TRADE MONITORING SYSTEM. 19 USC 2393.

The Secretary of Commerce and the Secretary of Labor shall establish and maintain a program to monitor imports of articles into the United States which will reflect changes in the volume of such imports, the relation of such imports to changes in domestic production, changes Establishment.

in employment within domestic industries producing articles like or directly competitive with such imports, and the extent to which such changes in production and employment are concentrated in specific geographic regions of the United States. A summary of the information gathered under this section shall be published regularly and provided to the Adjustment Assistance Coordinating Committee, the International Trade Commission, and to the Congress.

Summary to Adjustment Assistance Coordinating Committee, International Trade Commission, and Congress. 19 USC 2394.

SEC. 283. FIRMS RELOCATING IN FOREIGN COUNTRIES.

Before moving productive facilities from the United States to a foreign country, every firm should—

(1) provide notice of the move to its employees who are likely to be totally or partially separated as a result of the move at least 60 days before the date of such move, and

(2) provide notice of the move to the Secretary of Labor and the Secretary of Commerce on the same day it notifies employees under paragraph (1).

(b) It is the sense of the Congress that every such firm should—

(1) apply for and use all adjustment assistance for which it is eligible under this title,

(2) offer employment opportunities in the United States, if any exist, to its employees who are totally or partially separated workers as a result of the move, and

(3) assist in relocating employees to other locations in the United States where employment opportunities exist.

19 USC 2271 note.

SEC. 284. EFFECTIVE DATE.

Chapters 2, 3, and 4 of this title shall become effective on the 90th day following the date of enactment of this Act and shall terminate on September 30, 1982.

Ante, pp. 2019, 2030, 2035. Termination date.

Approved January 3, 1975.

LEGISLATIVE HISTORY:

HOUSE REPORTS No. 93-571 (Comm. on Ways and Means) and No. 93-1644 (Comm. of Conference).
SENATE REPORT No. 93-1298 (Comm. on Finance).
CONGRESSIONAL RECORD:
Vol. 119 (1973): Dec. 10, 11, considered and passed House.
Vol. 120 (1974): Dec. 5, 11-13, considered and passed Senate, amended.
Dec. 20, House and Senate agreed to conference report.
WEEKLY COMPILATION OF PRESIDENTIAL DOCUMENTS, Vol. 11, No. 1:
Jan. 3, Presidential statement.

Mr. SKELTON. Mr. Murphy, thank you very much. We'll get back to you in a few minutes.

The next gentleman I wish to introduce is by way of the small world, any given day that I leave my home where we live in McLean, VA, I go downtown to Washington, my across-the-street neighbor, Garrett Boyd, might be coming out to say good morning. Again, good morning and welcome to our hearing.

It's good to see you and thank you for coming all the way down here to be with us today.

TESTIMONY OF W. GARRETT BOYD, SPECIAL ASSISTANT TO THE VICE CHAIRMAN FOR SMALL BUSINESS, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. BOYD. Thank you, Mr. Chairman. I'd also like to say thank you to Congressman Vandergriff and to Congressman Stenholm. It's always a pleasure to be back in Texas, of course, my home State.

I am with the Export-Import Bank. We are located at 811 Vermont Avenue, in Washington, DC. We have the one location only in Washington. I have submitted a copy of my testimony for the record. I'd like to just highlight it, if I might.

Mr. SKELTON. Without objection, your full testimony will be made a part of the record. Please proceed.

Mr. BOYD. I'm delighted to appear before this group to discuss the Export-Import Bank's support for small business exporters. Since I am a former small businessman, I share the committee's strong interest in this subject. Today, I am pleased to report on Eximbank's aggressive four-point program to help small firms to enter the export market and to succeed in it.

Our efforts are focused on four different areas: communication and education, program review and revision, marketing and distribution, and recordkeeping and analysis.

Our communications and education effort has two goals.

First, to improve our awareness and our understanding of the real needs and special concerns of small exporters and small firms with export potential.

Second, to improve small companies' understanding of our programs so that they can use them to export successfully.

This year, we are conducting a series of regional export conferences for small businesses across the country, and I might also add specifically for smaller banks. Thirty of these meetings have already been held, and 10 more are scheduled for the end of September.

We have had special working meetings with panels of exporters, export trading companies, banks, insurance brokers, with associations such as the National Association of State Development Agencies, and with trade and finance specialists from the Department of Commerce and the Small Business Administration.

Any small company that has a question relating to exporting can receive advice and assistance from Eximbank with a call to our toll free hotline telephone number, 800-424-5201.

In a second area, program review and revision, we now define small business according to the standards that should be familiar

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to all small businesses. When I first came to the bank 2 years ago, we had three different definitions for small business within the Bank. Now, as of last October, we have adopted the standards that are set by the Small Business Administration. Each of Eximbank's export support programs are available to and are being used by small exporters. Three programs are specifically tailored to assist small businesses.

Our newest program, the working capital guarantee program, enables small businesses to obtain critical preexport financing from commercial sources. This is the program that Administrator Sanders referred to which we are putting together in a joint effort—that is, the export revolving line of credit within the Small Business Administration and our working capital guarantee program as it relates to small businesses.

Our small business credit program enables small businesses to arrange commercial bank export loans for their medium-term sales with interest rates fixed at the lowest levels permitted under the internationally adopted guidelines of the Organization of Economic Cooperation and Development.

The third program, in which we place a special emphasis on small business and one that Patty Ralph will get into a little bit more later, I'm sure, is our new-to-export insurance policy, which is offered through the Foreign Credit Insurance Association. It provides an excellent entry mechanism into international sales for small businesses.

In the third area of marketing and distribution, Eximbank is a small agency with a big mission. We have one location in Washington, with 340 employees; all of the transactions approved by the Export-Import Bank at this point come through the same location in Washington.

We are tackling this major problem in a number of ways. We have, first of all, assigned six Eximbank employees to work full time on a marketing task force. We have contracted as well with a professional firm, Needham Porter Novelli, to develop an effective communication and marketing effort,

The "Washington's Best Kept Secrets" book was mentioned previously. We were included in that and the recognition of the Export-Import Bank, notwithstanding the lack of recognition for the programs within the Bank, was something in the neighborhood of 14 to 16 percent nationwide. So, we know that we have a major marketing effort in front of us.

We have brought in representatives as well from the Foreign Credit Insurance Association, the Department of Commerce, Small Business Administration, and several State government agencies for indepth training in Eximbank's programs, so that they can effectively act as marketing agents and distributors in the field.

I might also add that we have, on a monthly basis, one session for exporters and two 2-day sessions, for bankers held in Washington, to come in and familiarize themselves with our programs.

We are also trying to look at modifications that can be made to our various programs, and we're currently preparing to launch an intensive marketing campaign in a four-State area, Illinois, Michigan, Minnesota, and Wisconsin. We will be trying a number of initiatives in the four-state area, and monitoring their success in

order to develop a national program from the results that come back to us from that area.

Our goal is to increase use of Eximbank's programs by increasing awareness, understanding of Eximbank's programs, increasing the number of distributors for our programs, establishing a system of field support for exporters wanting to use these programs, and evaluating the effectiveness of the programs.

When we move into the area of recordkeeping and analysis, the results of the trial campaign will be carefully reviewed and evaluated throughout the test period. Upon completion, they will form the basis for a nationwide program which should measurably increase the Bank's assistance to small- and medium-sized exporters.

The question of accessibility that was raised earlier, for example, is one of the things that will be tested in the test market area, where we are offering to commercial banks in that four-state area a delegation of authority, allowing them to make the credit decisions up to $300,000 per borrower. For the preshipment coverage involved in the working capital guarantee program.

In the first half of this fiscal year, we authorized $625 million in assistance for exports by small businesses, or 20 percent of our total authorization during the period. I'm sure that you are very familiar, with the set-aside that came out of the recent renewal of the Eximbank charter, which established a 6-percent set aside for this year, 8 percent for next, and 10 percent 3 years hence. As you can see, at this point in time, we are well exceeding the 6 percent set aside that had been established for the current fiscal year.

Our four point program of communication and education, program review and revision, marketing and distribution, and recordkeeping and analysis will enable us to provide you, Congress, with an even better report on small exporters in the coming months.

Small businesses form the very core of the American economic system. They represent the greatest potential source of new growth with increased exports and new employment for our country.

I'm proud of the part that Eximbank has played to help them realize this potential.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF W. GARRETT BOYD, SPECIAL ASSISTANT TO THE VICE CHAIRMAN FOR SMALL BUSINESS, EXPORT-IMPORT BANK OF THE UNITED STATES

I AM DELIGHTED TO APPEAR BEFORE THIS GROUP TO DISCUSS THE EXPORT-IMPORT BANK'S SUPPORT FOR SMALL BUSINESS EXPORTERS. SINCE I AM A FORMER SMALL BUSINESSMAN, I SHARE THE COMMITTEE'S STRONG INTEREST IN THIS SUBJECT. TODAY, I AM PLEASED TO REPORT ON EXIMBANK'S AGRESSIVE FOUR-POINT PROGRAM TO HELP SMALL FIRMS TO ENTER THE EXPORT MARKET AND TO SUCCEED IN IT. OUR EFFORTS ARE FOCUSED ON: (1) COMMUNICATION AND EDUCATION, (2) PROGRAM REVIEW AND REVISION, (3) MARKETING AND DISTRIBUTION AND (4) RECORD-KEEPING AND ANALYSIS.

I. COMMUNICATION AND EDUCATION

WE ARE BUILDING AN EFFECTIVE SYSTEM OF COMMUNCIATIONS WITH SMALL COMPANIES, TRADE ASSOCIATIONS, BANKS, STATE AND FEDERAL GOVERNMENT AGENCIES AND OTHERS DIRECTLY INVOLVED WITH SMALL COMPANIES. OUR COMMUNICATIONS EFFORT HAS TWO GOALS.

FIRST, TO IMPROVE OUR AWARENESS AND OUR UNDERSTANDING OF THE REAL NEEDS AND SPECIAL CONCERNS OF SMALL EXPORTERS AND SMALL FIRMS WITH EXPORT POTENTIAL.

SECOND, TO IMPROVE SMALL COMPANIES' UNDERSTANDING OF OUR PROGRAMS SO THAT THEY CAN USE THEM TO EXPORT SUCCESSFULLY.

JOHN BOHN, OUR NEW FIRST VICE PRESIDENT AND VICE CHAIRMAN, IS RESPONSIBLE FOR OVERSEEING OUR MARKETING AND SMALL BUSINESS EFFORTS, AND IS THUS VERY ACTIVE IN HELPING TO REACH SMALL COMPANIES.

THE BANK'S 12-MEMBER ADVISORY COMMITTEE INCLUDES THREE SMALL BUSINESS REPRESENTATIVES: GORDON O. F. JOHNSON, CHAIRMAN OF THE BOARD OF LOGETRONICS, INC., OF SPRINGFIELD, VIRGINIA, WHO IS FORMER CHAIRMAN OF THE SMALL BUSINESS WORKING GROUP OF THE U.S. CHAMBER OF COMMERCE EXPORT POLICY TASK FORCE; RALPH CHEW, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE A. E. CHEW COMPANY, INC., OF NEW YORK, AND PRESIDENT OF THE NATIONAL ASSOCIATION OF EXPORT COMPANIES; AND WAYNE P. MOORE, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF THE MOORE SPECIAL TOOL COMPANY, INC., OF BRIDGEPORT, CONNECTICUT. THE FIRST MEETING OF THE COMMITTEE WAS HELD ON MARCH 29 AND THE NEXT MEETING WILL BE ON MAY 31.

EXIMBANK'S DIRECTORS, OFFICERS AND OTHER STAFF MEMBERS HAVE BEEN FOLLOWING A VERY ACTIVE TRAVEL SCHEDULE TO SPEAK TO A WIDE VARIETY OF GROUPS. IN THE FIRST HALF OF FISCAL YEAR 1984, WE MADE 233 TRIPS COVERING 23 STATES.

THIS YEAR, WE ARE CONDUCTING A SERIES OF REGIONAL EXPORT CONFERENCES FOR SMALL BUSINESSES ACROSS THE COUNTRY. THIRTY OF THESE MEETINGS HAVE ALREADY BEEN HELD, AND 10 MORE ARE SCHEDULED BEFORE THE END OF SEPTEMBER. ATTENDANCE AT INDIVIDUAL SESSIONS HAS BEEN AS HIGH AS 200. PRELIMINARY TABULATION OF QUESTIONNAIRES FILLED IN BY CONFERENCE PARTICIPANTS INDICATES THAT 64 PERCENT OF THE ATTENDEES RESPONDING REPRESENT FIRMS WITH FEWER THAN 100 EMPLOYEES AND 80 PERCENT ARE FROM COMPANIES WITH FEWER THAN 500 EMPLOYEES. MORE THAN 46 PERCENT OF THE COMPANIES

had been exporting for less than three years or have not yet export[illegible]. Thirty-five percent were either previously unfamiliar with or unaware of Eximbank's programs; 55 percent rated themselves as only slightly famili[illegible] before attending the seminar. After attending the seminar, 90 percent g[illegible] the conference a satisfactory or better rating. Thus, we conclude that we are reaching the appropriate audience with an appropriate presentation.

In the Bank's Washington offices each month, we schedule a one-da[illegible] briefing session for groups of exporters and potential exporters, and two two-day briefing sessions for commercial bankers. Each session includes a full overview of the Bank's policies, operations and services and is offered at no charge. In addition, in March, we conducted our ver[illegible] popular annual conferences for exporters and commercial bankers. More than 400 people attended our two annual meetings, many of whom represent small businesses.

We have had special working meetings with panels of exporters, ex[illegible] trading companies, banks and insurance brokers, with associations, such [illegible] the National Association of State Development Agencies, and with trade a[illegible] finance specialists from the Department of Commerce and the Small Busine[illegible] Administration.

Any small company that has a question relating to exporting can receive advice and assistance from Eximbank with a call to our toll-free hotline telephone number (800-424-5201). This advisory service has been especially active this year. In the first half of FY 1984, 5,500 calls for assistance were received on the special number. In the month of February alone, we received 1,456 calls--the highest monthly total since service was initiated five years ago.

Through these communications programs, and through Eximbank staff analysis, we have identified some of the strong points of our programs and found areas where further improvements were needed. Thus, the secon point of our on-going program to assist small firms is program review an revision.

II. Program Review and Revision

Eximbank now defines small businesses according to the standards that should be familiar to all small companies: the standards set by th by the Small Business Administration. The SBA guidelines are based on either sales volume or number of employees for each industry, by SIC cod

Each of Eximbank's export support programs is available to and is being used by small exporters. Three programs are specially tailored to assist small businesses.

Our newest program, the Working Capital Guarantee, enables small companies to obtain critical pre-export financing from commercial source This is the first time Eximbank has provided pre-export financing suppor for U.S. companies. Since the program was introduced, through the end o March, we had approved 13 working capital guarantees. Now that the word is getting around that the program is available, more applications are coming in. Three more were approved in April and six are now pendin Guarantees approved so far are assisting companies exporting aviation pa computers and office equipment, lumber, recreation and sports equipment, metal processing equipment and specialty metals. To facilitate use of th program, we are now improving and standardizing the application process. We also have reached an agreement in principle with the Small Business

Administration to coordinate our program more closely with their similar export revolving line of credit guarantee program.

Our Small Business Credit program enables small companies to arrange commercial bank export loans for their medium-term sales with interest rates fixed at the lowest levels permitted under internationall adopted guidelines of the Organization for Economic Cooperation and Deve. ment. Under the Small Business Credit program, unlike our other loan programs, we no not require evidence of subsidized foreign competition. This program is working well. Authorizations in the first six months of this year totaled $21.7 million, an increase of 57.2 percent over the le in the first six months of FY 1983.

Our "New-to-Export" insurance policy, offered through the Foreign Credit Insurance Association (FCIA), provides an excellent entry mechani into international sales. It offers greater protection against the risk that foreign customers will not pay for their credit purchases, at reduc minimum premiums, compared to policies available to more established exp ters. To make the New-to-Export policy even more attractive and useful, March we adopted a "hold harmless" provision to encourage banks to accep assignment of the proceeds of these policies from small businesses as collateral for loans.

Another change which assists all FCIA insurance policyholders, new-to-export or otherwise, was the extension of cover for interest on claims to the date of payment, rather than to the date of default. This improvement will be especially beneficial to smaller companies, who feel the effects of non-payment more acutely than larger firms.

We have developed a new "Umbrella" insurance policy which will be made available to small and medium-sized banks, export trading companies state export finance agencies, export financing cooperatives, small business investment companies, and other appropriate entities, beginning July 1. This new policy will enable the insured parties to extend short-term insurance coverage to credit sales by threshold exporters. These exporters thus will have coverage, without the administrative burdens of holding their own individual policies.

III. Marketing and Distribution

Eximbank is a small agency with a big mission. Our discussions and conferences have made us aware that a better effort was needed to market and distribute our services to small and medium-sized companies. We are tackling this problem in a number of ways.

We have assigned six Eximbank employees to work full-time on a marketing task force. In addition, all of the Bank's regular loan officers are advising and counseling small businesses daily in how to use our various programs. We have contracted with a professional firm, Needham Porter Novelli, to develop an effective communication and marketi effort. We are developing a new series of descriptive materials to help companies understand and use our services. We have brought in representatives from the Foreign Credit Insurance Association, the Department of Commerce, the Small Business Administration, and several state government agencies for in-depth training in Eximbank's programs so that they can effectively act as marketing agents and distributors in the field.

In this connection, we are stepping up our program of calling on commercial banks, and will help train commercial bank employees in the

operations of our programs in their own offices.

Four-State Campaign

We are now preparing to launch an intensive test-marketing campaig in a four-state area: Illinois, Michigan, Minnesota, and Wisconsin. These states were selected because together they account for about one-fourth of U.S. exports, they have a well-diversified exporter base, they have a highly developed banking system, and they have state governm programs to encourage exports.

We will be trying a number of initiatives in the four-state area, and monitoring their success, in order to develop a national program. Our goal is to increase the use of Eximbank programs, by:

(1) increasing awareness and understanding of Eximbank programs,
(2) increasing the number of distributors for our programs,
(3) establishing a system of field support for exporters wishing to use these programs, and
(4) evaluating the effectiveness of the programs.

To increase awareness and understanding of our programs, we will be conducting an active marketing and promotional campaign, including use of direct mail advertising and other appropriate resources.

To increase the distributors for our programs, we will be emphasi two programs, the working capital guarantee and the FCIA "umbrella" insu policy.

In the four-state area only, any commercial bank wishing to partic pate may have delegated authority to commit Eximbank's 90 percent guarant

cover for working capital loans of up to $300,000 per qualified exporter

A system of field support for exporters in the four states has been set up. While we have conducted special briefing sessions for U.S. Commerce Department personnel working in offices throughout the country we are providing extended training for nine Commerce trade development specialists in the four-state area. Personnel in FCIA's Chicago office have been assigned to work full-time on this special marketing campaign. We have met several times with representatives of the four state governments, and will continue to work closely with them as the campaign devel These organizations will be able to provide on-the-spot assistance to enable companies to understand and use our services.

IV. Record-Keeping and Analysis

The results of this trial campaign will be carefully reviewed and evaluated throughout the test period. Upon completion, they will form th basis for a nationwide program which should measurably increase the Bank' assistance to small and medium-sized exporters.

Eximbank has already modified its internal record-keeping to identify better its support for small business exporters. In the first half of this fiscal year, we authorized $625 million in assistance for exports by small businesses, or 20 percent of our total authorizations during the period.

Under our FCIA insurance programs, 65 percent of all policies issu in the six months were for small businesses. In addition, 77 percent of quotes for new policies outstanding at the end of March were for small businesses.

Our four-point program of communication and education, program review and revision, marketing and distribution, and record-keeping and analysis, will enable us to provide you with an even better report on small exporters in the coming months.

Small businesses form the very core of the American economic system. They represent the greatest potential source of new growth, of increased exports and of new employment for our country. I am proud of the part that Eximbank is playing to help them realize this potential.

Thank you Mr. Chairman. I will be happy to respond to any questions.

Mr. SKELTON. Thank you so much. Ms. Ralph.

TESTIMONY OF PATRICIA F. RALPH, ASSISTANT VICE PRESIDENT, FOREIGN CREDIT INSURANCE ASSOCIATION

Ms. RALPH. Thank you, Mr. Chairman. I'd also like to thank the committee for inviting the Foreign Credit Insurance Association to participate today.

Mr. SKELTON. I think you're the one that probably had to travel the furthest distance.

Ms. RALPH. It's a pleasure. Dallas is a very nice city.

My name is Patricia Ralph. I am here representing the Foreign Credit Insurance Association. We are known for short as FCIA, not to be confused with the CIA or FDIC. We are located at 40 Rector Street in New York, and what I'd like to tell you today is that FCIA as an association was formed in 1961. We are now 23 years old, and we were formed by a consortium of insurance companies in cooperation with the Export-Import Bank of the United States.

Essentially, we market, issue and service the insurance policies which are written on behalf of the U.S. exporter for his U.S. exports. These insurance policies are used for a variety of reasons. The first and foremost as a protection tool.

U.S. exporters do need to protect their receivables which are being shipped abroad. There are certain inherent risks that we define in our policies. The types of coverage that we offer to a U.S. exporter are broken down between commercial risks and political risks. The commercial risk cover would reflect the insolvency or bankruptcy of the overseas buyer or a protracted default situation.

On the political risk side, it would involve the inability of the foreign buyer to pay due to a war, a riot, an insurrection, revoking of an import or export license, or a dollar inconvertibility situation.

With the policies that we do issue, these are the risks that are being covered under the policy test. It is being used by the U.S. export community as a protection vehicle, but over the past 23 years has been used primarily as a financing vehicle because one of

the problems that smaller exporters have is that when they go ahead to market their particular product abroad, they invariably will face a competitive situation whereby they are forced to extend credit terms, which prior to this point they had not been extending. They might have been working on a confirmed irrevocable letter of credit, and the story that I frequently hear in talking with exporters is that they have been dealing with this buyer for a number of years and have had no problems, until their buyer comes and says I really like your product, in fact, I prefer it, but I have competition from the Japanese or the Germans who are willing to come in and extend me 150 days or 120 days to pay for these goods.

The U.S. exporter then is faced with a dilemma. He does not want to lose the market share that he presently enjoys. So, he must make a decision that he is going to effectively match the competition and go and offer the credit terms that are being extended by the competition.

If he chooses to do that, what he may come across is a situation whereby he doesn't have sufficient working capital to continue to meet his normal business expenses, and it's in this area where the FCIA policy has probably been the most effective. Between 8 to 9 of every 10 policies that we presently issue are written on behalf of the U.S. exporter to allow him to discount or sell his receivables to a commercial bank and be paid out by the commercial bank.

The insurance policy is, in effect, used as a form of collateral, thereby the working capital or the business position of the company is not affected. He is, in effect, extending the financing to the overseas buyer, and, in many cases, these U.S. exporters may allow those collections to be run through the commercial bank.

Consequently, we do work very closely with commercial banks throughout the Nation. The policy, to summarize, is really used as not only a protection vehicle to allow U.S. exporters to keep shipping into some markets, such as Mexico and Brazil, whereby conditions may not be ideal, and it will also allow him to market and finance his overseas buyers, thus not only maintaining his position in the overseas marketplace, but perhaps penetrating it a bit further.

We have two insurance policies that we offer at FCIA which are specifically designed for the small exporter, and one of them, as Garrett mentioned previously, is the New to Export policy. It is specifically written for those companies who have never exported before or who have not exported in excess of three quarters of a million dollars on an average over the last 2 years.

We give additional incentives for this type of an insurance policy. We offer not only 100 percent political risk coverage, but we offer 95 percent commercial risk coverage as opposed to 90 percent commercial risk coverage which is offered on other policies.

There is an additional incentive here for the small exporter to take out a policy and begin to put together the mechanism for an effective overseas sales program.

We are also, in conjunction with the four-State program, the pilot project that Garrett Boyd mentioned a moment ago, constructing an umbrella policy which is being contemplated for State agencies as well as other appropriate entities. It is felt that these agencies, acting as a contract administrator, would begin to obtain

the credit reports on behalf of a small exporter who may have had no prior experience. He would also assist the small exporter in marketing his product overseas, and doing some of the paper work that is now associated with the policies that we have.

With the present new to export policy and with our contemplation of the umbrella policy, we are, in effect, trying to address the smaller exporter to enhance U.S. exports abroad.

In conclusion, I would just like to say that presently, out of all the policies that we now issue through FCIA, approximately 65 percent of those policies represent the SBA standards that we are now following.

Thank you very much.

[Ms. Ralph's prepared statement follows:]

Prepared Statement of Patricia F. Ralph, Assistant Vice President, Foreign Credit Insurance Association

The Foreign Credit Insurance Association (FCIA) offers a variety of export credit and political risk insurance to enhance the sale of products from the U.S. The Association was formed by a consortium of private U.S. insurance companies in 1961 in cooperation with the Export-Import Bank, a U.S. government agency. The Export-Import Bank reinsures the political and commercial risks covered under an FCIA policy. FCIA serves as an agent for the Export-Import Bank in marketing, issuing and servicing policies.

FCIA structures insurance policies to protect the U.S. exporter against the inability of the foreign buyer to make payment due to designated commercial and political risks. The policies cover two types of risk: (1) commercial defaults, caused by the buyer's insolvency or failure to pay within six months after the due date of payment; and (2) political risks; insurrection, expropriation, confiscation, cancellation of export or import licenses and transfer risk. All of the policies cover 100% of the political risk. Commercial risk cover is granted at 90%, with the exception of the New-to Export Policy.

An FCIA policy, while serving as a protection against credit losses by the U.S. exporting community, has several other advantages of importance to the small businessman. One is its use as a marketing tool. An FCIA policy allows the U.S. exporter to continue shipping into some high-risk

markets such as Mexico and Brazil, where he ordinarily may lose market share if forced to withdraw for awhile due to the present difficult conditions. It will also allow a U.S. exporter facing competition from abroad to offer extended credit terms which he could not otherwise provide.

In addition to serving as a protection and a marketing tool, a policy can be used very advantageously as a financing vehicle. The FCIA policy is widely accepted as a form of collateral, and thus enables the U.S. exporter to discount his export receivables with a commercial bank. The exporter's cash flow and working capital remains unaffected and allows him to continue his operations in an uninterrupted fashion. It also allows the U.S. exporter to extend the credit terms needed by his foreign buyer. Thus, he is extending a line of credit to the foreign buyer to pay for the U.S. product.

Of particular interest to this forum is that 65% of FCIA's present policyholder base is comprised of companies who conform to the present SBA standards. One specific program which is available through FCIA is the New-to-Export Policy. This policy is designed for the company who wishes to initiate an export effort, or for the company who has exported, on average, less than $750,000 over the past two years. This policy covers an exporter for 100% of the political risk and 95% of the commercial risk, with no deductible provision. The approximate premium cost is 1%. The policy may be held for up to a period of five years, but volume may not exceed $1MM.

As previously mentioned by Garrett Boyd, we are in the process of attempting to construct an Umbrella policy which would facilitate exporters shipping up to $2MM on an annual basis. This policy is being considered for state agencies and other appropriate entities who would serve as a Contract Administrator. It is contemplated that the Contract Administrator would relieve the small exporter from the routine administrative tasks associated with a policy such as filing of shipment reports and assimiliation of credit reports, but would not assume the exporter risk itself. Thus, the small exporter would have a choice of a New-to Export Policy or the Umbrella Policy, depending upon their individual needs and qualifications.

In addition to these two types of policies, FCIA offers a range of other policies to assist the U.S. exporter which include a Short Term Deductible Policy, a Services Policy, a Lease Policy, a Master Policy and several Medium Term Policies.

Mr. SKELTON. Thank you. Mr. Smith.

TESTIMONY OF RON SMITH, SENIOR SPECIAL AGENT, EXODUS PORT COORDINATOR, OPERATION EXODUS, U.S. CUSTOMS SERVICE

Mr. SMITH. Mr. Chairman, I'd like to thank you and the committee once again for having the opportunity to address this committee. I'm Ron Smith, I'm a Senior Special Agent in the U.S. Customs Service. I had been appointed as the Exodus Port Coordinator for Operation Exodus in the Dallas area.

I'm going to highlight some parts of the testimony that has already been presented, and then I'm sure there will be some questions afterwards.

At least locally, I'm probably one of the reasons for the problems caused by the restrictions and regulations which are being addressed at this time.

Exodus was first established in October of 1981. It was set up—I think it's been said——

Mr. SKELTON. Let me interrupt. I do believe we got some compliments on you and your people.

Mr. SMITH. Thank you very much. We appreciate that. Hopefully, after my testimony, it will be apparent that good things are coming about from our Exodux Program.

The necessity for the program was obvious. We had received intelligence that our technology was getting over into the Soviet bloc. They were being—they were able to cut short a lot of their R&D, I should say, research and development by stealing whatever technology we were manufacturing.

Customs got selected as the main enforcement agency in this effort probably because we already had our people in place. We were at all the points of import, every point of import is always a point of export. We were already there in place.

The initial phase of the program, I'm afraid, probably caused a lot of trouble for people. I've witnessed problems with detentions, goods being exported and some seizures, but I think it should be related to the committee that we had problems in learning exporting procedures all over again.

We have been around since 1789, but we have been out of the exporting business since about 1972. So, we had to get refamiliar with the export laws. We had to enforce the regulations of another agency, which is never an easy thing to do, and I think thanks to the cooperation, at least locally that I had with the Department of Commerce, I have been able to have those regulations explained to me. I have in turn been able to explain them to the various members of the exporting community.

Our second phase of the program, which we are almost done with, here at DFW, is to obtain intelligence from the exporting community. This was aided in step one, the detention and seizure process, which brought our Operation Exodus team into contact with the exporting community. It also provided us individuals within the community who would be willing to provide intelligence to us, in reference to diversions of controlled goods to Communist bloc countries, and out and out attempts to illegally export to the Communist bloc countries.

The third phase, and the biggest phase, of the whole program, that we are hoping to begin here soon, is the investigative phase. Actually, apprehending the individuals and the companies that are illegally diverting or illegally shipping the technology to the Soviet bloc countries.

Throughout the endeavors of the Exodus Program here, at least, we have sponsored three or four trade seminars in the Tulsa area and also in Texas. We have included the Department of Commerce and the FBI in all of those. I have had numerous opportunities to provide assistance to the exporting community here, in facilitating any detentions or seizures that they may have had at other ports.

And, it is my belief that with our assisting the exporting community with their legitimate exports, that they will provide us with enough intelligence that will keep us busy enough watching out for the illegal exports, that we can go ahead and lax up on policing up the legitimate ones, once everyone gets things in order and the documentation is done properly.

As a means of enhancing the Customs relationship with the exporting community, the Exodus team, once again like I said, has been encouraged to conduct trade seminars. We do participate with the local Department of Commerce, and it is anticipated that this approach that we have taken here, which I hope is also the national approach, would assist us in obtaining viable intelligence from the experts, which is not us, but which is the exporting community.

Thank you.

[Mr. Smith's prepared statement follows:]

Prepared Statement of Ron Smith, Senior Special Agent, Exodus Port Coordinator, Operation Exodus, U.S. Customs Service

Operation EXODUS is a United States Customs Enforcement Program designed to protect our national security by intercepting illegal high-technology exports, including implements of war, to Eastern Bloc countries. Our current administration initiated this program in October 1981.

The necessity for this program was evident, when it became apparent that the Soviet Union and its allies were coordinating an effort to obtain sophisticated United States manufactured or designed strategically technological items, due to their known quality, advanced development and superior design. Also, there are the obvious vast savings in using our Research and Development, rather than trying to develop the technology on their own.

The objectives of the EXODUS Program are to stop or at least discourage the outflow of strategic technology and to force compliance with the law by intercepting and/or seizing such shipments - items and data - that are being exported illegally; and to disrupt groups and individuals responsible for these illegal exports through arrests, prosecutions and other legal sanctions. A secondary objective has been to stem the flow of crucial merchandise to the Soviet Bloc and other embargoed nations.

The EXODUS Program was implemented through intelligence, inspection and investigation. Integrated Customs Task Forces or EXODUS Teams, comprised of special agents, inspectors, patrol officers and other Customs personnel, focus their attention on the illegal outflow of strategic technology through ports of exit throughout the United States. Inspectors and patrol officers review export documentation, determine suspect cargo, and conduct export searches of these shipments daily. EXODUS special agents identify those shipments that require further investigation and make appropriate referrals. The special agents also have prime responsibility for gathering intelligence and liaison with other Government agencies, both domestic and foreign.

The Dallas/Fort Worth EXODUS Program was manned and operational in late 1982. Our program, as well as the Regional and National Programs, has gone through growing pains in our attempt to become familiar with new laws and regulations. Throughout the first year of our existence, numerous shipments were detained, some of which were subsequently seized and penalties assessed for regulatory violations. Initally 30 - 40 percent of all detentions were seized, but since October 1983 our seizure - detention ratio has ranged between 90 and 100 percent.

Our Dallas/Fort Worth EXODUS Program, as well as the Regional and National EXODUS Programs, are in agreement that the EXODUS Program was not intended to restrict or discourage legitimate United States exports in any way. Therefore, the EXODUS Program at the Dallas/Fort Worth Airport is concentrating our effort on assisting all exporters and/or their agents in properly documenting their export shipments. This effort is being implemented with the assistance of the local Department of Commerce, International Trade Administration. If a licensible commodity is being exported without a license, due to negligence on the part of the exporting company, our office is assisting the exporter in obtaining the license from either Department of Commerce or Department of State. We informally detain the item being exported, at the carriers premises, until the license is obtained, to assure compliance and then allow the shipment to proceed to it's destination. The time period for our local detentions has been reduced from weeks and months to just a matter of hours or days.

The EXODUS Program is designed to protect the technical accomplishments resulting from American ingenuity and labor, and to prevent our adversaries from achieving technological parity and gaining a military advantage through illegal acquisition of United States technology. To achieve success in this endeavor, the cooperation of the exporting community with the Customs Service is essential. The United States

Customs Services' Office of Investigation solicits the assistance of the exporting trade community in providing information relating to any suspicious circumstances surrounding export purchases of high technology items or services. There are four major areas in which United States business can assist us in our effort to stem the illegal flow of commercial equipment and technology to unauthorized destinations:

1. By identifying inquiries and orders for products, parts, or technology, including software, which are likely to be shipped outside the United States and by seeing that they are handled by export specialists.

2. By ensuring the export specialists are sufficiently knowledgable about export controls and that appropriate screening and licensing procedures are followed.

3. By making certain that employees - whether they live, travel or transmit information abroad, or merely come in contact with foreigners visiting the United States - fully understand that the United States Government restricts the flow of technical data or know-how, whether it be written, oral or visual.

4. By identifying major customers who request to pay in cash.

Customs is beginning to experience some success in this area. (i.e. - A recent investigation which was initiated in Headquarters, was conducted through the combined efforts of EXODUS Teams in Dallas/Ft. Worth, Denver, J.F.K. and Bonn, Germany, resulted in the arrests and successful prosecution of two senior executives in the Denver area and two seizures of highly technical items valued at $200,000.00, which was destined for the University of Moscow. This was due to information provided to us by a Garland based company.) Currently, the Houston EXODUS Team, is conducting several criminal investigations with excellent potential for successful prosecution. The Dallas EXODUS Team also has two criminal investigations pending indictments and criminal prosecution.

As a means of cultivating and enhancing Customs relationship with the Exporting Community, the EXODUS Teams have been encouraged to conduct Trade Seminars, with the participation of the local Department of Commerce. Our seminars in the Dallas/Ft. Worth area and the State of Oklahoma, have been designed to provide exporters and their agents with assistance in proper export procedures. It is anticipated that this approach should foster viable intelligence from the experts, those individuals involved in or responsible for International Trade.

Mr. SKELTON. Thank you. Mr. Vandergriff?

Mr. VANDERGRIFF. I know time is short, Mr. Chairman, but it's going to be a problem to——

Mr. SKELTON. We're in pretty good shape.

Mr. VANDERGRIFF. All right. There are so many questions we'd like to ask, but we will try to be reasonable in our inquiries.

Let me ask you, perhaps I ought to direct this to any of you who would care to make any comments on the subject, we hear so much talk about a division of opinion within the various branches of the executive department relative to the exporting of certain sensitive technology. Various departments seem to have different views as to what should be exported and to whom.

Do you have any views as to how we might move to solve this problem so that we could strike some sort of balance between preserving our national defense while at the same time not causing our companies to needlessly lose sales? Are there any comments that any of you would want to offer in this regard?

Yes, Mr. Stiles?

Mr. STILES. Mr. Vandergriff, I think what would be helpful to the business community is to be able to preidentify the company, the type of license he needs, the qualifications, the processing time it takes from while he's negotiating the sale. Once he has reached the sale, then to go through the long process of the license application. If we preidentify that product and prevalidate him, if you will, the fact that *x* product can be shipped to *x* country, and circumvent that long delay and the last minute obtaining of licenses, that would be helpful.

Mr. VANDERGRIFF. I see. Well, I thank you very much. Would any others like to make any comments or observations in this regard? [No response.]

All right. Mr. Stiles, while we're talking with you, we have heard from some companies who seem especially anxious about the Commerce proposal relative to the distribution licensing procedure. The possible change is evidently alarming many people.

I realize you're not a regulatory arm, but do you know anything about the rationale behind this proposed change?

Mr. STILES. I couldn't give you all the rationale from a technical point as our office of export administration could. Only to tell you that in those licensing, we find it more necessary to specifically identify the end user and prevent diversion from selling a product from our country to country A and having it diverted to country B.

Under the provisions of that particular licensing program is where the greatest problems were in diversion.

Mr. VANDERGRIFF. All right, sir.

Mr. STILES. It was not specific in terms of each shipment and each product that was shipped under a general boat license.

Mr. VANDERGRIFF. I see. All right. Mr. Murphy, I think I understood you correctly, I'd like to be sure that I did. It seems to me to be an important point.

Were you saying to us that you thought we should amend the Trade Act of 1974 so that the trade adjustment information or assistance center could certify companies as eligible for assistance rather than the Office of Trade Adjustment itself?

Mr. MURPHY. Yes, sir.

Mr. VANDERGRIFF. That's a very strong recommendation. It seems to me it came from your testimony.

Mr. MURPHY. Yes, sir, that point is over 95 percent—well, up until recently, more than 99 percent of the petitions submitted to Washington currently are certified anyway. Currently, there have been some change in that. Currently, over 95 percent of those petitions that are sent in, the firms are certified anyway.

The problem for the small business is that his problems are exacerbated by the fact that he is small, by definition, and probably has less resources than a larger company, in order to combat any problems he has with declining sales.

So, it hurts the small business much more than it hurts the medium-size business and obviously the larger business.

So, anything that could be done to reduce that length of time before we can actually start working with them in developing some help for them would certainly seem to me to be beneficial to the small businesses.

Mr. VANDERGRIFF. Thank you, sir. I believe other than to commend Mr. Boyd for the test program in the Midwest, Mr. Chairman, and I'd be anxious to hear the results from it, I will step aside and allow you and Congressman Stenholm to continue the questioning.

Mr. SKELTON. Along that line, I would certainly hope that you would share the results of the four-State test with us.

Mr. BOYD. We'll be happy to do so when the data is available.

Mr. SKELTON. Mr. Stenholm?

Mr. STENHOLM. Ms. Ralph, what is the premium and loss experience? What's the premium cost to a small business that might want to avail themselves of your insurance?

Ms. RALPH. It is approximately 1 percent or $1 per $100 of gross invoice value.

Mr. STENHOLM. What has been your loss experience?

Ms. RALPH. Our loss experience over the last 5 years has been rather high. Last year, we paid over $200 million in claims as an association. Again, we are reinsured by the Export-Import Bank for both commercial risk and political, but when you are dealing in markets such as Mexico and Brazil and you are supporting sales into those markets, your loss ratios are a bit out of sight.

We are certainly not bringing in the amounts of premium to cover the losses. Gross premium last year amounted to approximately $23 million.

Mr. STENHOLM. Mr. Boyd, would you comment on one of the suggestions we heard from private enterprise earlier today regarding the slowness and amount of redtape associated with gaining an export-import loan for a business who is interested?

Mr. BOYD. Yes; it depends, of course, on the programs we're involved in, but I suspect that what was referred to was a new program, the working capital loan guarantees. That's been a new learning curve for us to go through. For the 50 years that we have been in business, all of our programs have been directed toward export trade finance.

We have looked for our reasonable assurance of repayment to come from the opposite side of the water, from the foreign buyer. So, for us to go into a new program, we are beginning to look at

what really is a domestic loan. It's a new learning curve for us, and it's been a difficult learning curve for us to go through.

It's the only program within the Bank where we look for reasonable assurance repayment to come from the U.S. exporter, and it's based on inventory and receivable financing.

Our other programs have not been involved in preexport financing at all. Because of the newness of the program, all of the transactions that come under the working capital guarantee program go before the Board of Directors for decision. Under our other programs, we have a $1 million cutoff. Anything under $1 million, goes to the loan committee, which meets on a daily basis, for approval and then just concurrence by the Board.

After we have gotten some additional experience with this program, undoubtedly the smaller cases will be acted on by the loan committee. At this point in time, a case does have to go through the Board of Directors, and it creates some lag time.

If the program is used as we have visualized it to be used properly, it would fall into a revolving line. Although there might be some initial lag time for the first transaction, once the parameters of that revolving line have been established, then all the transactions that go forward under it would simply be meeting the terms and conditions of that line.

So, it has been a problem for us, but I think we're gaining ground, and I think specifically in the four-State area, where we are going out with the delegation of authority under this specific program to the commercial banking community, it will make a big difference. And, once we get some feedback from that area, then we'll take it nationwide.

Mr. STENHOLM. One final question. I would hope you could answer it briefly. I would like to ask each of you if—what one thing would pop into your mind as the thing that Congress has done to you, you wished we hadn't, or something that we haven't done yet that you think we might consider.

Mr. STILES. I would say that when our bill comes up to make the Department of International Trade an industry, that you will vote for it.

Mr. SKELTON. Can I interrupt? You want us to establish a separate department?

Mr. STILES. Yes, sir.

Mr. SKELTON. You don't think that this could work within the Department of Commerce?

Mr. STILES. I think it's possible for it, and it is now under the International Trade Administration for it to be done. However, that——

Mr. SKELTON. Obviously we're not doing a very good job.

Mr. STILES. Well, that causes problems with other organizations in bringing them into the department, merging them together, such as the Special Trade Negotiator's Office.

I don't think that can become effective under the Department as it is now.

Mr. SKELTON. Thank you.

Mr. BOYD. May I add to that as well? You've got a promotion element within the Department of Commerce. You've got two other Federal agencies, specifically the SBA and the Export-Import Bank

where there is funding available all related to international trade. You've got the USTR's office, which is related to the policy element, and if it were all under one roof, perhaps the responsiveness could be more direct, quicker, and, of course, follow a much cleaner line than it does now where you have different opinions within different departments.

Mr. SKELTON. Excuse me.

Mr. STENHOLM. You have answered what you'd like us to do. Is there anything that we have done that you'd like us to undo?

Mr. STILES. Well, to reasonably look at legislation where it imposes a regulatory function on industry at a cost, and to look at what those costs are in terms of lost export business as a condition of the good part that you're trying to achieve in protecting military by what is the cost on the other hand.

That is involved in the tax area, Foreign Practices Act, all well intended, all for good reason, but looking at the cost of that on the other side, finding ways, maybe, that we can retain some of those things and still achieve the objective.

Mr. STENHOLM. Mr. Murphy?

Mr. MURPHY. Well, I guess you're all probably tired of hearing about additional funding for various programs, but our funding is getting low and there's a lot more than we can do in the program to help small business and medium sized business in this country, to make a turnaround and prevent them from going out of business, and, therefore, have their employees unemployed.

The average costs for employees of the trade adjustment assistance program is approximately $150 per employee. That seems to me to be an extremely low price to pay for a turnaround situation for that company to keep those people employed and, therefore, not have to pay those people unemployment compensation.

But, the one thing, it seems to me, that must be done, if the United States wants to compete in the real world, we've got to stop playing like we're the savior of the world free enterprise, although that's a wonderful objective, we do it at a tremendous cost: unemployment and job displacement of U.S. workers.

We've got to start to move on the foreign countries who are preventing our products from being sold in their countries through, for the most part, nontariff barriers. Those barriers that are in each country—are well known to people with experience in international trade.

We need to go into that. We need to have the nerve to go in there and force—through economic pressure—those countries to allow our products to be sold in their country and on a similar basis that their products are sold in our country.

We're the big apple, the United States is the big apple. Those smaller countries don't have half the market we have, and we're letting them destroy our industries.

Thank you very much.

Mr. STENHOLM. Mr. Boyd?

Mr. BOYD. Our charter was just recently renewed, so there was a great deal of discussion, pros and cons, and some of the direction that the charter went.

I think that there were philosophical differences, of course, within the bank as related to set-asides, specifically. I don't think

that it's anything that within the bank there is still any dissension about. We are very comfortable with the set-asides being met and will continue to be met.

But, philosophically, to establish a set-aside in a period of time when you are at the cap of the availability of funding within your organization, could effectively, underline could about three times, effectively cut out use of specific funds for other portions of industry if the specific industry were not, in fact, creating the demand for the use of those funds. So, that's just a philosophical difference that I think in looking at your set-asides should be considered to be able to give some kind of management capability to the organization within a given set-aside. If it were referred to as a target figure, for example, it might have a different effect on the day to day management of operations.

As far as recommendations that might be made, our major delivery system, of course, is the commercial banking community. I think anything that might be used from a congressional standpoint to encourage greater participation by the 15,000 to 16,000 commercial banks around the country would be beneficial to us as well as the exporting community.

Thank you.

Ms. RALPH. I can only echo what Garrett has said about the commercial banks. It's vitally important to have their continued support in order to promote many of these programs.

I also think based on the experience that I've had in running seminars across the country to increase the awareness of these programs, that the smaller exporter is certainly looking for ways to make things easier and the one stop shop concept that was brought up earlier, we hear all the time.

Thank you.

Mr. SMITH. The only thing I can think of, from an enforcement standpoint, it's awfully difficult to be in enforcement when an Export Administration Act has expired and it is a continuing resolution. It's very difficult for a criminal investigator to sell a criminal investigation to the U.S. attorney, based upon a prosecutible merit, of a law that has expired.

Mr. SKELTON. Sort of like impossible.

Mr. STENHOLM. Thank you, Mr. Chairman.

Mr. SKELTON. I have one question for whoever wishes to answer, probably Mr. Stiles.

Earlier today, there was a comment to the effect that the Commerce Department mostly does a good job, but doesn't have any authority.

What do you think about that? Is that correct?

Mr. STILES. Well, I did not hear the comment directly, and I'm sure what it was made in reference to. If it was pertaining to policy, U.S. trade policy, that's correct, because the Commerce Department, as a whole, does not have the authority to make trade policy within the United States. That's in the special trade negotiator's office.

If the comment was made in terms of our ability to make decisions over program implementation, use of personnel, things of that nature, yes, we do have.

As a matter of fact, we have had more delegated authority to the field in the last 2 years, in the International Trade Administration, than during the 15 years I've been around. We have more authority now over the small budget and people and programs that we have been given than ever before.

Mr. SKELTON. Thank you. I wish to thank all of you who have come so far, most of you from the Dallas area, for joining us in this hearing. I don't think you realize how really helpful this is to us. We, of course, have to do our homework in Washington, but it's always best when we're able to come to your home community and hear you speak and express your thoughts on the problems and recommendations.

So many people say what's going on in Washington. Really, real America and Dallas and Abilene and Lexington, MO, that's where it is. That's why we're out here in the hearing.

Again, thank you and all the other panelists. Special thanks to Congressman Vandergriff for his kind invitation here, and Mr. Stenholm, we will be with you tomorrow.

Thus, we will adjourn this subcommittee until 9 o'clock tomorrow at the Kiva Inn in Abilene, TX.

[Whereupon, at 2:15 p.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

APPENDIX

Appendix A.—Compiled Recommendations for Improving Small Business Exports

1. Equal Treatment - Ensure our import restrictions are equal to other nations' restrictions.

2. Establish a "one-stop shop" within the Department of Commerce or establish a Department of Trade. This would logistically consolidate and streamline the export assistance and licensing process and eliminate separate related functions of the State Department, Commerce Department, Small Business Administration and other agencies.

3. Department of Commerce (DOC) should be responsible for processing and tracking export license applications. Witnesses cited examples of contacting the DOC to find out about a license application which had been submitted several weeks earlier and DOC personnel were unable to locate and report status.

4. Train Small Business Administration (SBA) personnel so they can recommend exporting and assist business owners with exporting potential. Further, assign the export loan program to an individual within each SBA office.

5. Increase publicity of export services available to small businesses.

6. Need for capital. The following items were mentioned:
   a. Direct loans are preferred (as opposed to guaranteed loans).
   b. Offer loans at lower than market rate to Export Trading Companies (ETC) to offset their investment risk.
   c. Reduce paperwork burdens pertaining to loan applications. Witnesses testified that banks are hesitant to get involved with the SBA, Export-Import Bank, or Foreign Credit Insurance Association because of the increased amount of paperwork required for such loan applications.
   d. Educate bankers on revolving line of credit.
   e. Legislate special tax breaks for small business export activities.

7. Export Trading Company Act: directs the Eximbank to finance ETC's favorably. Current process is laborious and not well known. Instead, Eximbank should be instructed to increase efforts to make their programs known to ETC's who could use it.

8. Inventory tax problems still exist at Foreign Trade Zones, and should be cleared up.

9. Lack of timely market information for overseas markets has been a major handicap in any concerted effort for small business owners. More efficient ways should be found to gather and disseminate this information.

10. Recommendations from the District Export Council (DEC) 84 meeting:
    a. Removal of export disincentives.
    b. Resolve the export licensing dilemma.
    c. Structure export financing so that small to medium size businesses, particulary those currently exporting, can utilize it.

11. Amend the Trade Act of 1974 regarding Local Trade Adjustment Assistance Centers. Authorize assistance centers to certify qualifying firms applying for assistance. Under present law, certification for assistance is done at headquarters, and takes several months after the application has been submitted.

APPENDIX B.—LETTER TO HON. TOM VANDERGRIFF FROM MR. JOHN D. MCFARLEN, PRESIDENT, SWP MICROCOMPUTER PRODUCTS, INC.

SWP
MICROCOMPUTER PRODUCTS, INC.

July 12, 1984

Honorable Tom Vandergriff
U.S. House of Representatives
1529 Longworth House Office Building
Washington, D.C. 20515

RE: Small Business Committee Congressional Field Hearing,
July 10, 1984 DFW Airport.

Dear Mr. Vandergriff:

We are a small business involved in the design, manufacture and marketing of personal and home use computers and computer add-on devices. Sales are averaging $300,000.00 plus dollars per month. We tried to do business in England, Austrailia, Germany, South Africa, and Isreal, but found very quickly that US export controls on our classification of product made it all but impossible due to excessive time delays. These delays cost us a lot of business.

Only careful planning, a crystal ball and large investments could make it possible for us to participate in the off shore markets. A business with our assets cannot afford to play. The "heart of the Nation" is the small business. Certainly we want to comply with this nation's laws but some laws present unnecessary obstacles.

Have we gone too far? Certainly there are business opertunities for our company in offshore markets. Competition is really strong and if we are to compete, we must have some "edge" be it availability or technology. Granted, caution should be exercised when sending very high tech products into a foreign market. Our customs people get excited about things that are no longer "high tech" and because of this, many millions of dollars of exports do not happen. Time is critical for most sales overseas because of the availability thing. Most people, if they have a choice, will buy product from their own country. Even if the availability edge survives the license application, the market window lost in the process may well have kept a project from being profitable.

If one is to plan his business activities, he must know, in advance, when he may ship an order. Parts are expensive and hard to get. Timing in business is everything and with Uncle Sam as a shipping foreman, you are dead. If government and business are not willing to take a chance, we are saying that we are not willing to participate in world trade. The component parts used in our products are available all over the world. I truely do not know how sensitive the situation is for these components world wide, it is up to our people in government to make this decision. We rely on our government to make sound decissions but we all know that this is the ultimate in "blind faith." We use the same parts that are in an IBM Personal Computer or a Phillips Computer or anyone else's desktop.

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If there was a guaranteed time limit for saying no to any business request, things would be better. As it is, we must tell our potential customer that we only know that it will take six weeks to never. I ask you if you would risk your business on such a situation. We won't! If this administration wants increased exports, do something about the Dept of Commerce Export Control. Give them a time limit in which to object instead of an iron fist with which to choke us.

An alternate possibility is a simple reporting proceedure for products that qualify. Any good company will reach out to qualified prospects for sales. Our government can surely find a way for business to reach foreign markets with low and medium tech products without risking national defense. It seems that foreign trade is just as important to the national security as is the protection of technology. I challange you as a leader of men to help find ways to balance the risk and open up this new market for our countries products.

I would like to offer my services to help in any way that I can to expedite the proceedure of reaching our goals.

Kindest Personal Reguards,

John D. McFarlen

John D. McFarlen
President & CEO

JDM/ws